

CONFIDENTIAL



Consumer Banking
US Real Estate

1st Mortgage August Credit Performance Deep dive

September 15th 2008

REL

Updated Sept. 15th, 2008

FCIC-086936

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August Performance Finding

The following areas deteriorated faster than expected:

- Older vintages ('04 & prior)
- Vintage '08 in Florida
- Arizona and Nevada
- NY has started to show faster deterioration
- Prime/Alt-A segments
- Broker channel
- Roll 5+ to loss (significant increase)

30+ DQ Seasonal Indices reveal that 2008 Seasonal factors have substantially increased from prior years, particularly since April. The August '08 index for 30+ DLQ is 25% higher than any prior August performance for the last three years.

August one-timers:

Ginnie Mae Repurchase double count	~ \$60MM
Others (incl. collection score conversion, Payment processing and natural disasters)	< ~ \$50MM
Total identified one-timers	< ~\$110MM

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General Credit Performance Trend

By Vintage:

- No sign of stabilization
- Vintage 2007 has deteriorated at faster speed than Vintage 2006
- Even older vintages ('04 & prior) started to show sign of deterioration after being stabilized in the past several months.

By Region:

- FL: at 6% of our total portfolio, has the worst credit performance of any state, and continues to deteriorate with no sign of slowing down. In addition to its sever HPI deterioration, FL has highest investor concentration.
- AZ & NV: has significantly under performed our portfolio average. They are catching up at faster speed to FL performance level, especially in Prime space. Higher investment property concentration is observed.
- CA: 30% of total portfolio, has deteriorated from better than portfolio average to close to average, but has slowed down in recent months.
- NY: 8% of total portfolio, still better than portfolio average, but deteriorated faster than average mainly in AltA & Prime.
- OH, MI & IN: has significantly under performed our portfolio average, especially, in Nonprime & Subprime, and earlier Prime & AltA vintages

By Risk Segment:

- Subprime & Nonprime: still contribute to the largest portion of credit losses, and continue to deteriorate
- Prime & AltA demonstrated faster deterioration than Subprime and Nonprime.

By Channel:

- Wall Street Channel continues to under perform versus portfolio average, non-Wall street channels deteriorated at faster speed than Wall Street, especially the Broker channel.

By Roll Rate:

- Overall, all bucket roll rates deteriorated, especially the early bucket roll (Roll 30 and Roll 60) and roll-to-loss (Roll 5+ to loss). Late bucket roll rate deterioration is the result of: a) loss acceleration; b) loss severity increase due to house depreciation pressure

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What to Expect

1. \$30+ delinquency will increase at an average of \$1B per month, consistent with our latest forecast (i.e. August at \$12.5B, and Dec at \$16.6B)
2. Impact of August one-timers will not significantly impact LLR projection.
3. The impact of the new "base case" economic assumption...i.e., directionally lower monthly NCL in the first half of '09. This means a directionally lower Q3 '08 LLR build. But due to continuous HPI deterioration in second half of 2009, we would expect losses to trend upward for most part of 2009.
4. Work with collection to better understand borrower behavior and macroeconomic trends (e.g. unemployment) to enhance forecast.

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Overview

MBA 30+ Dollars (\$MM)		
Aug-08	Jul-08	Increase

Aug-08		
% of Total ENR	% of Total 30+	% of Total Increase

Channel

Broker	1,882	1,690	193
Correspondent	4,390	4,054	336
Retail	1,611	1,451	160
Wallstreet	4,851	4,551	300
Total	12,735	11,746	989

20%	15%	19%
26%	34%	34%
30%	13%	16%
23%	38%	30%
100%	100%	100%

Risk Segment

Prime	1,864	1,654	210
Alt-A	2,052	1,876	177
Non-prime	3,984	3,696	288
Sub-prime	4,835	4,520	315

49%	15%	21%
20%	16%	18%
18%	31%	29%
12%	38%	32%

Vintage

Prior 2005	3,636	3,425	211
2005	1,935	1,798	137
2006	3,801	3,543	258
2007	3,195	2,851	345
2008	167	128	39

28%	29%	21%
21%	15%	14%
20%	30%	26%
21%	25%	35%
10%	1%	4%

Property States

CA	2,139	1,983	156
FL	1,346	1,243	103
NY	654	561	92
IL	595	541	54
AZ/NV	620	561	59
OH/MI/IN	1,264	1,192	72
All Other States	6,117	5,664	454

30%	17%	16%
6%	11%	10%
8%	5%	9%
5%	5%	5%
4%	5%	6%
5%	10%	7%
43%	48%	46%

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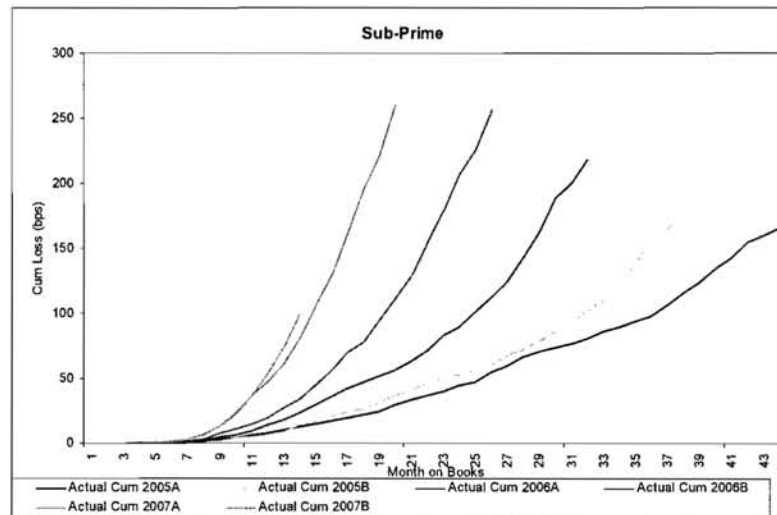
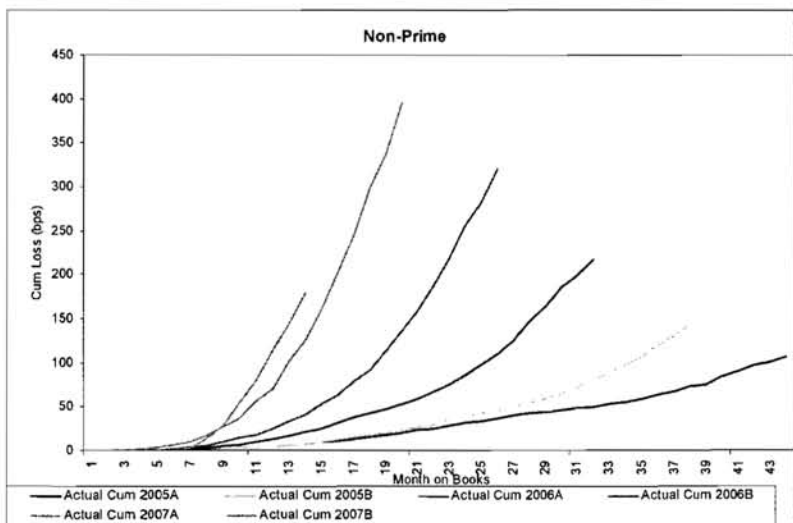
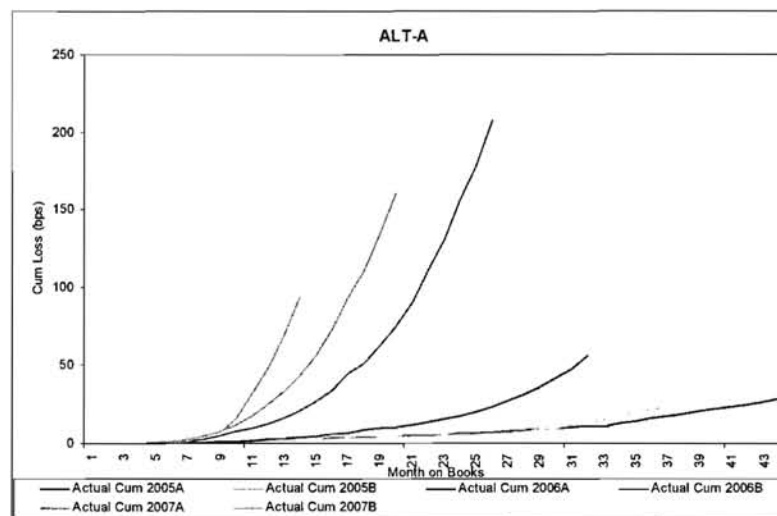
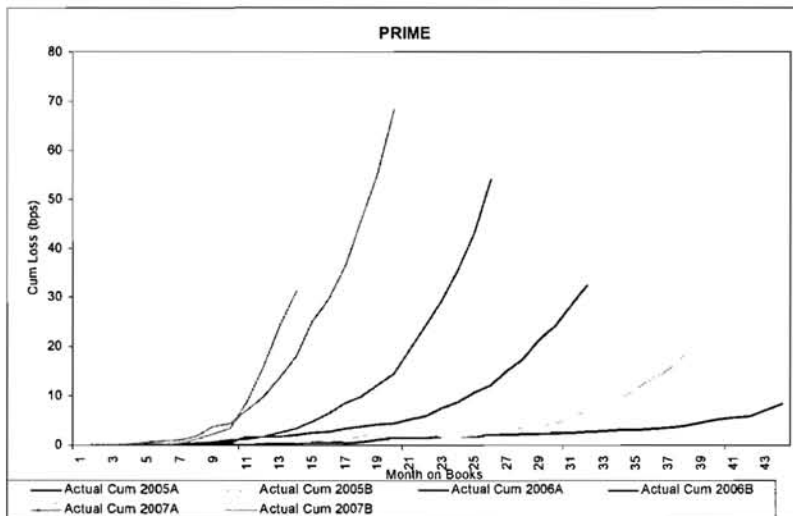
Credit Performance by vintage

- No sign of stabilization
- Vintage 2007 deteriorated at faster speed than Vintage 2006
- Even older vintages (04 & prior) have shown renewed sign of deterioration after being stabilized in the past several months.

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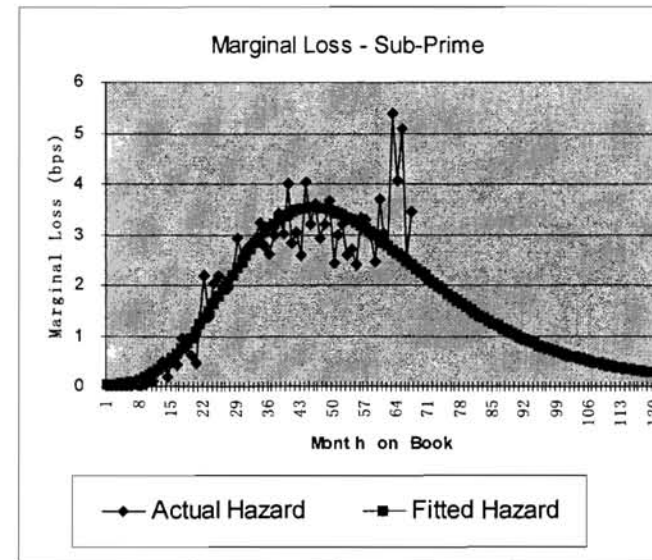
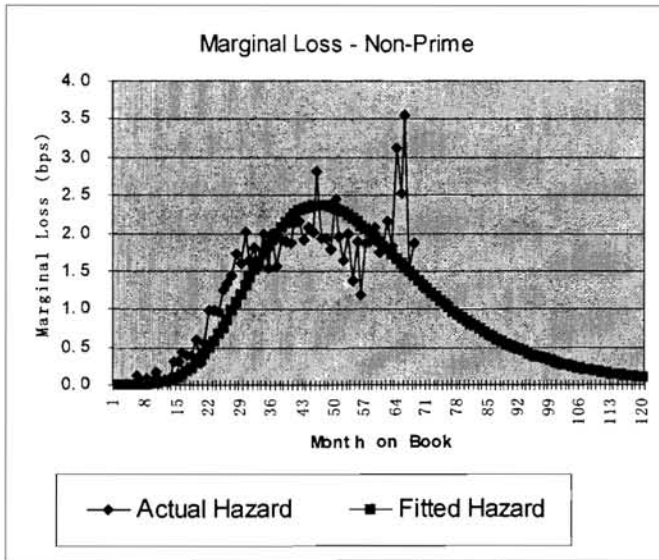
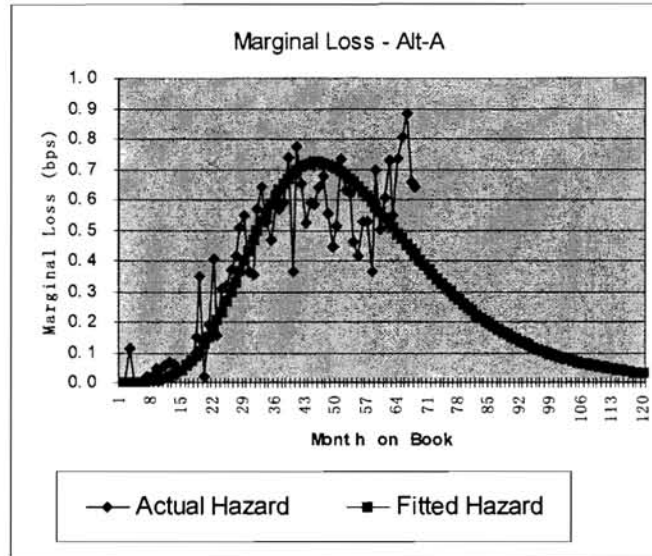
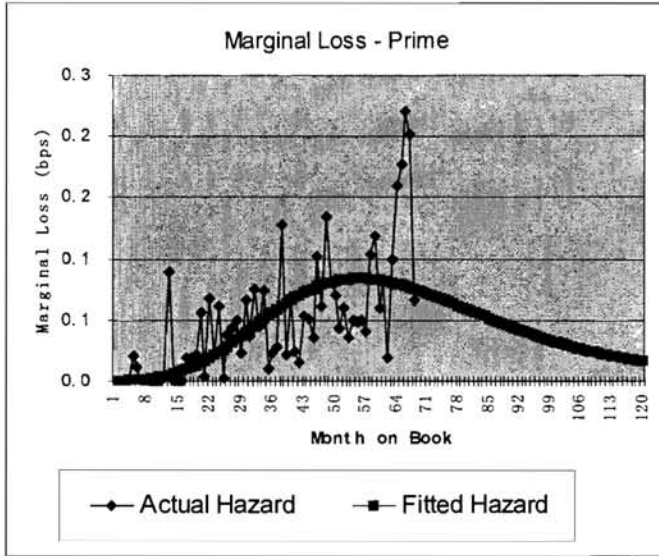
Vintages: Cum Loss by Vintage



Across all vintages, there is no sign of stabilization

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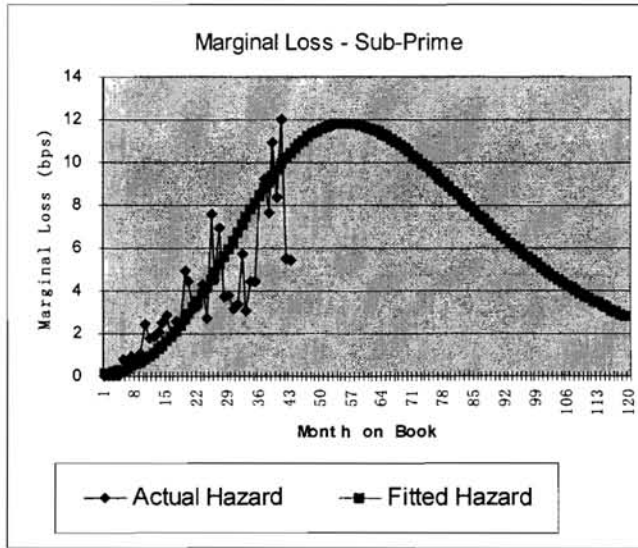
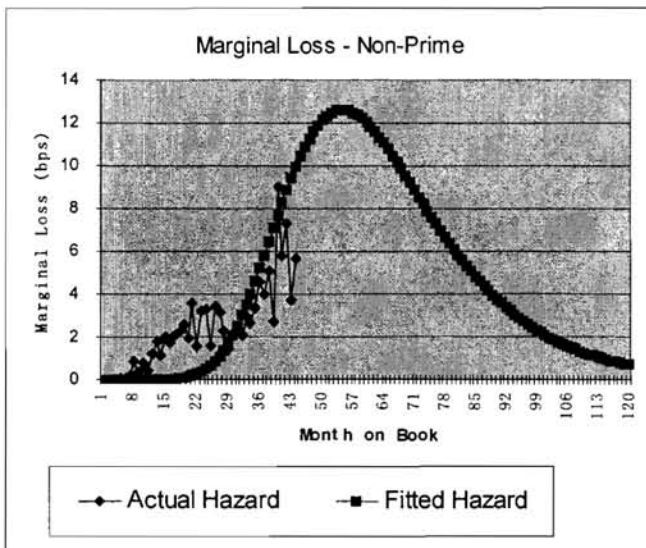
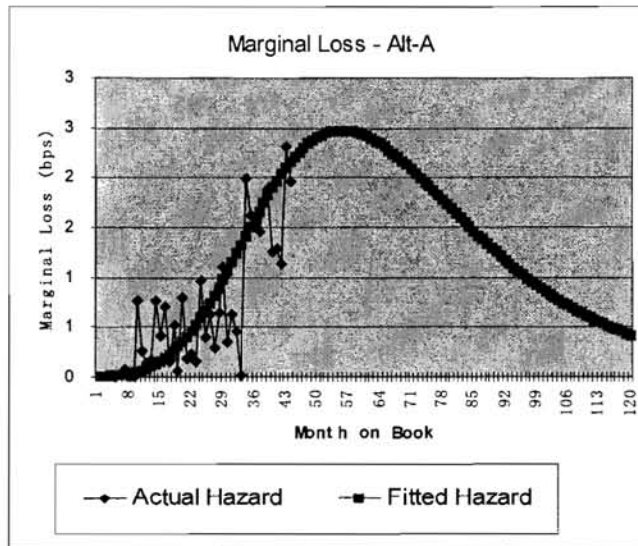
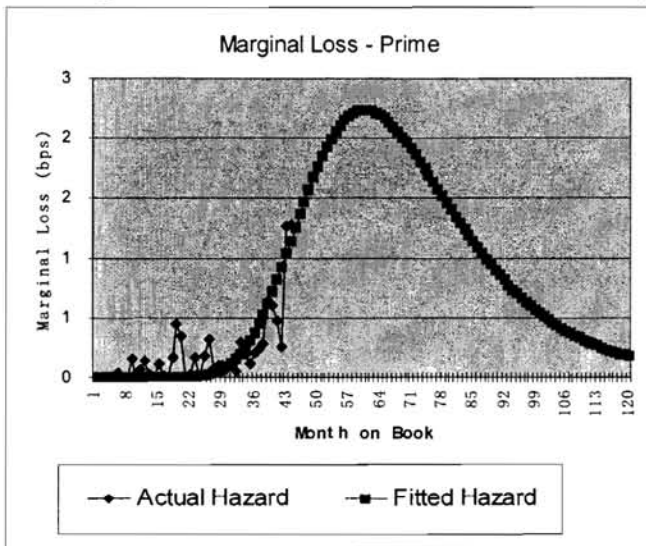
Marginal Loss: 2003 and 2004 Vintages





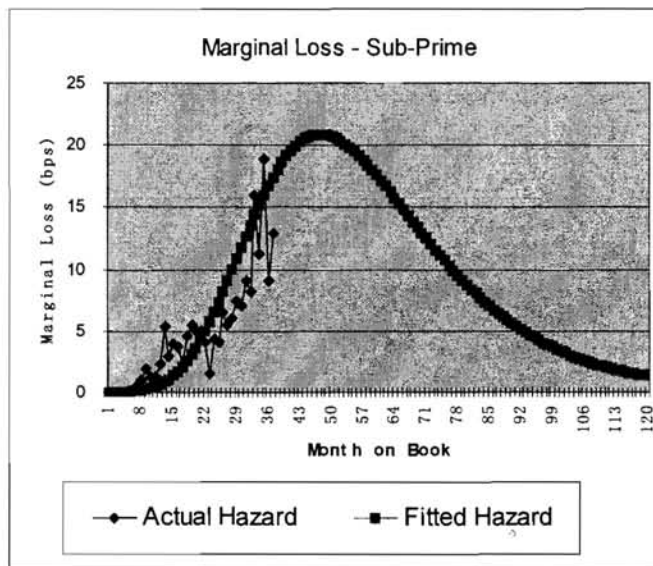
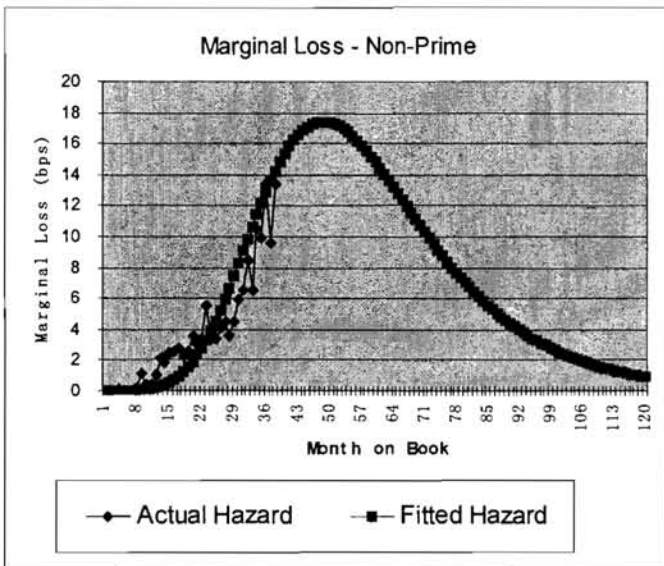
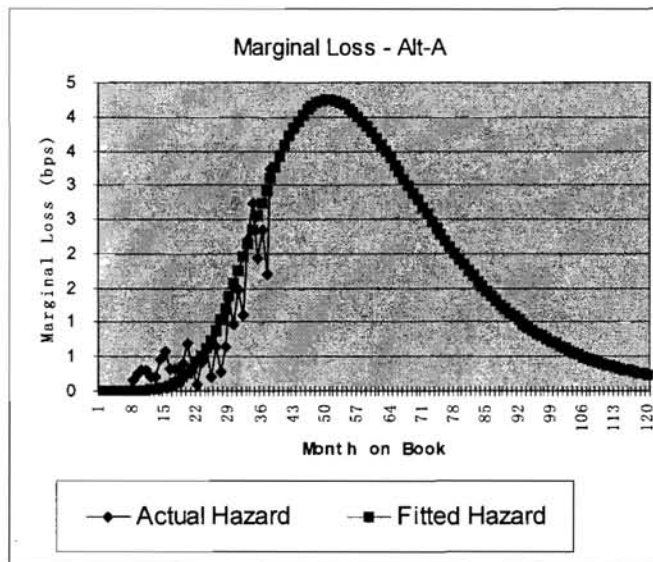
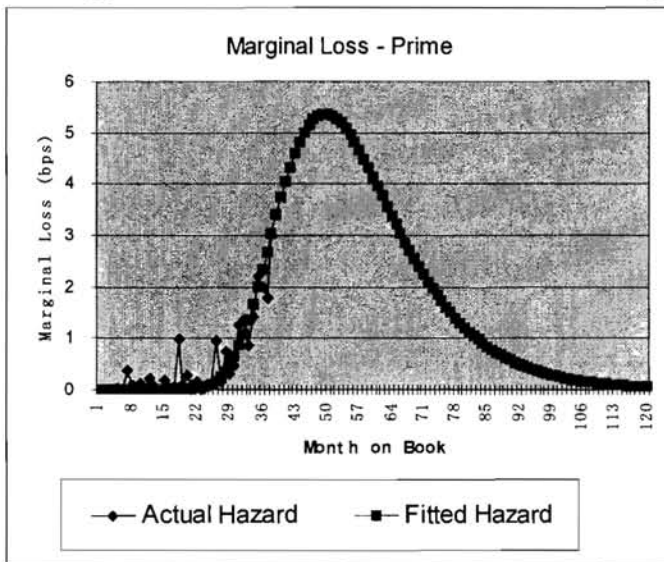
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Marginal Loss: 2005A Vintage



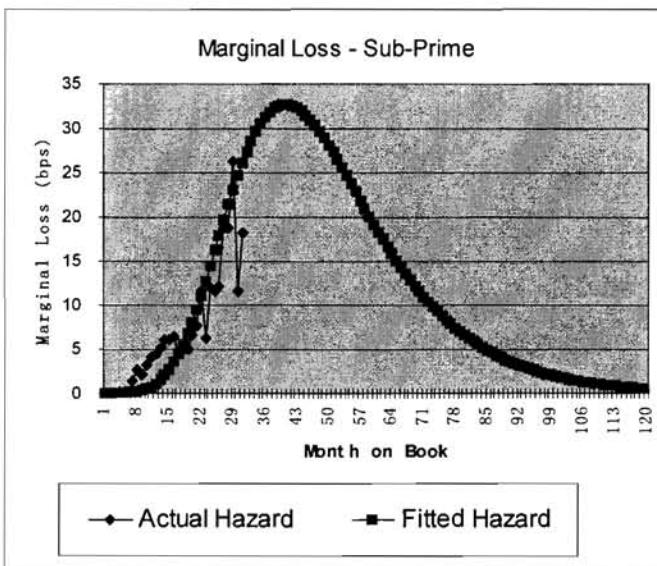
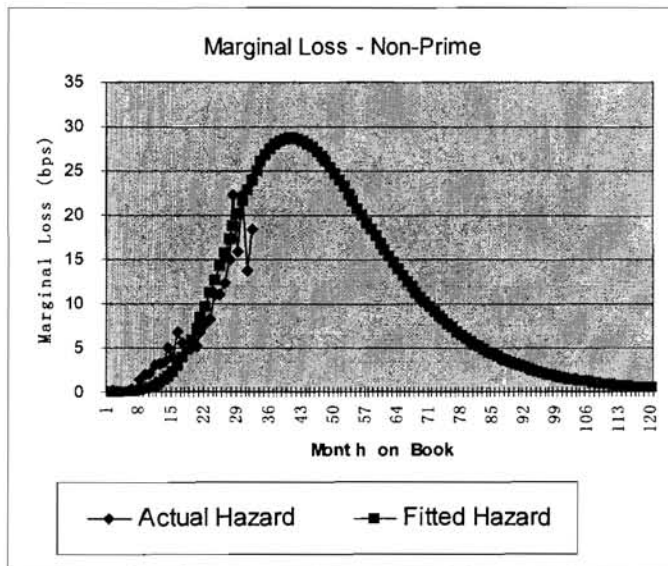
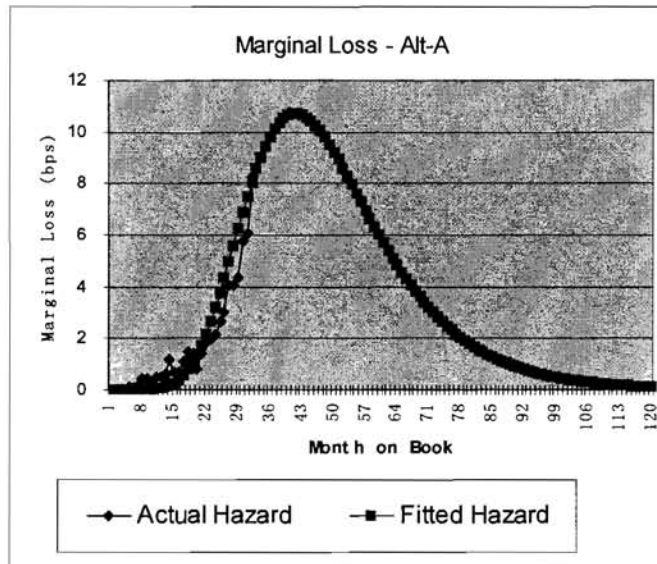
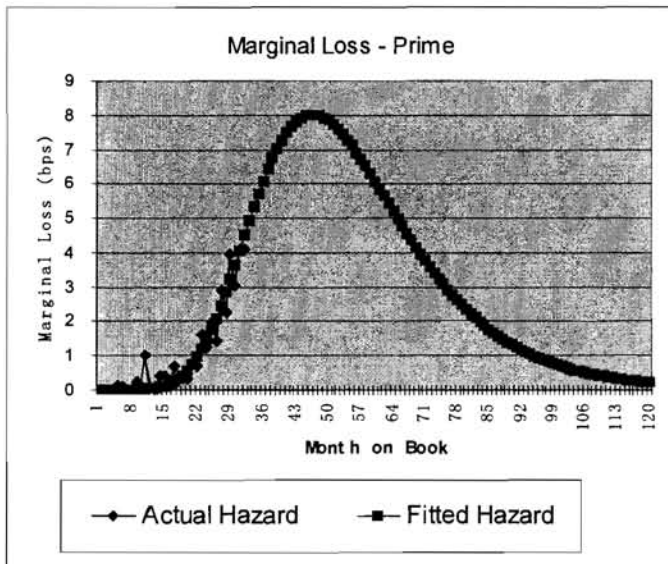
Real Estate Lending

Marginal Loss: 2005B Vintage



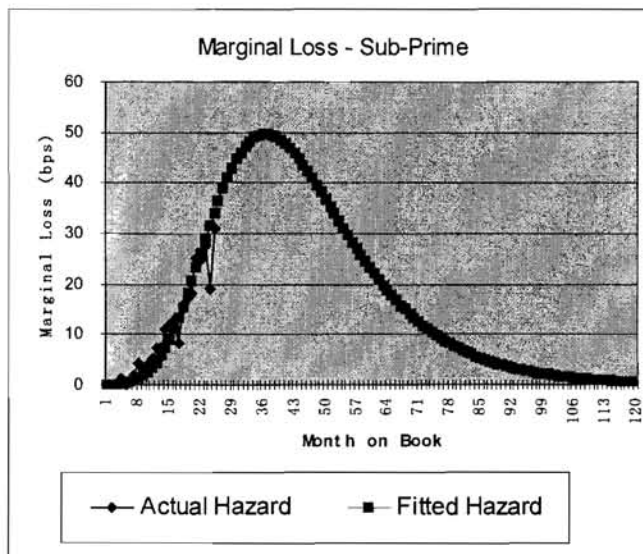
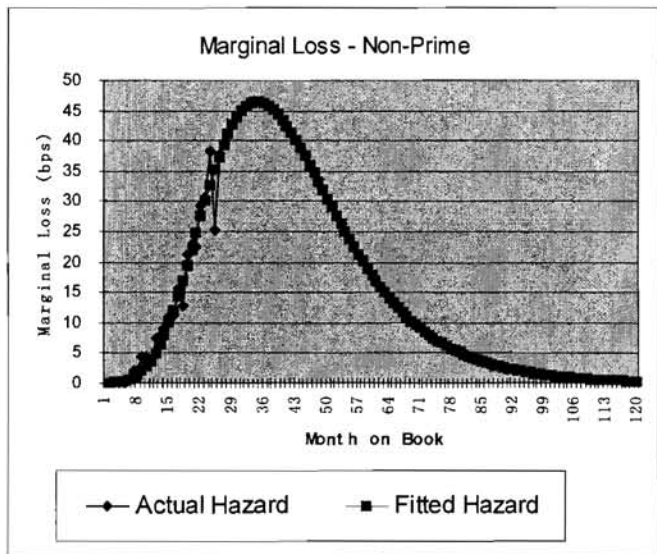
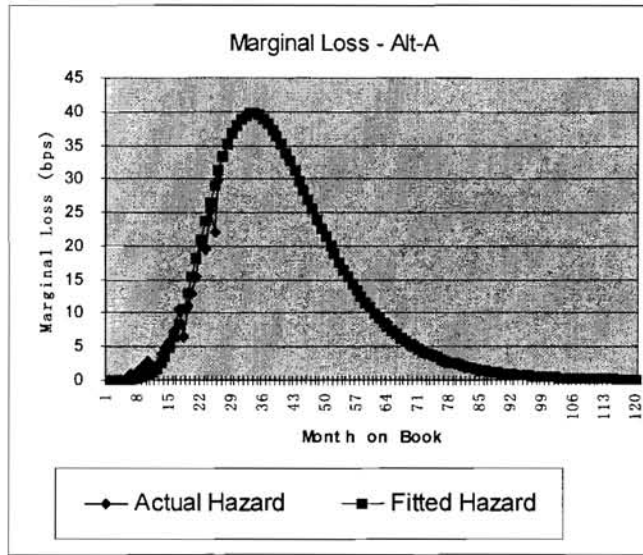
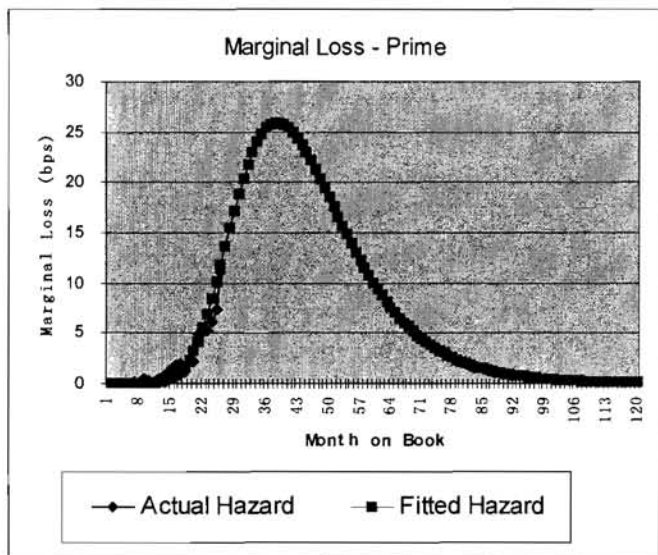
Real Estate Lending

Marginal Loss: 2006A Vintage



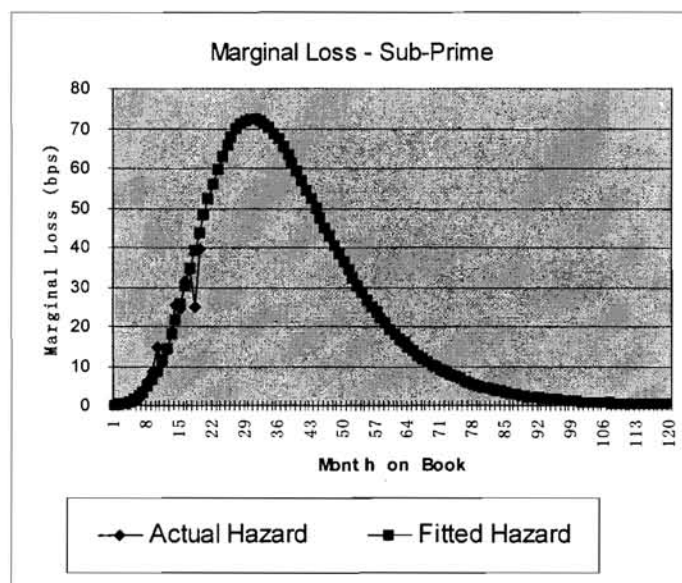
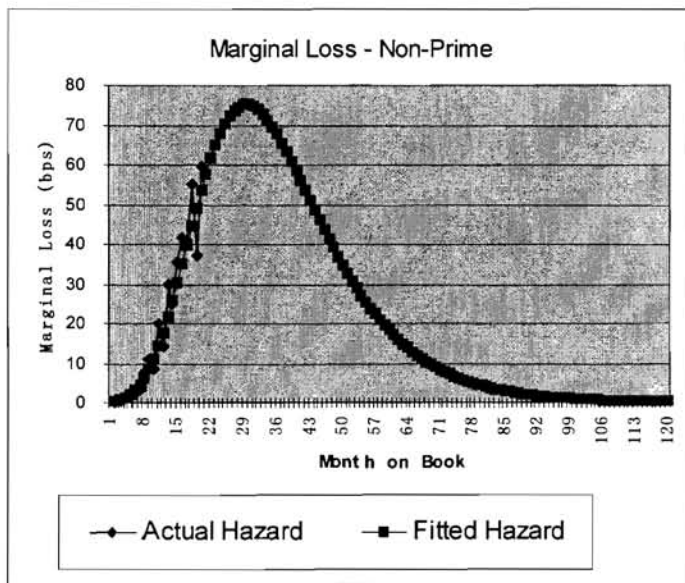
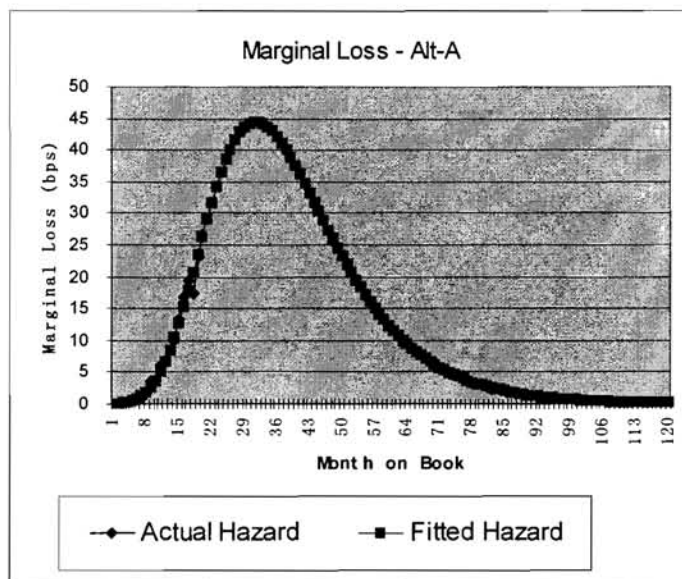
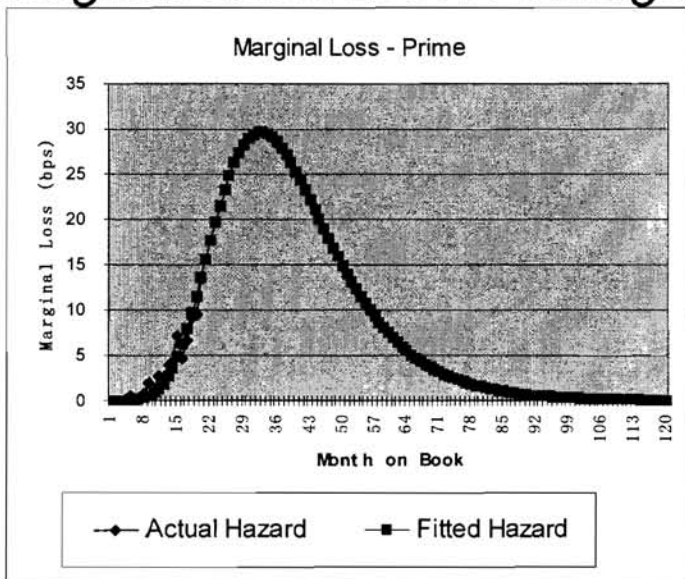
Real Estate Lending

Marginal Loss: 2006B Vintage



Real Estate Lending

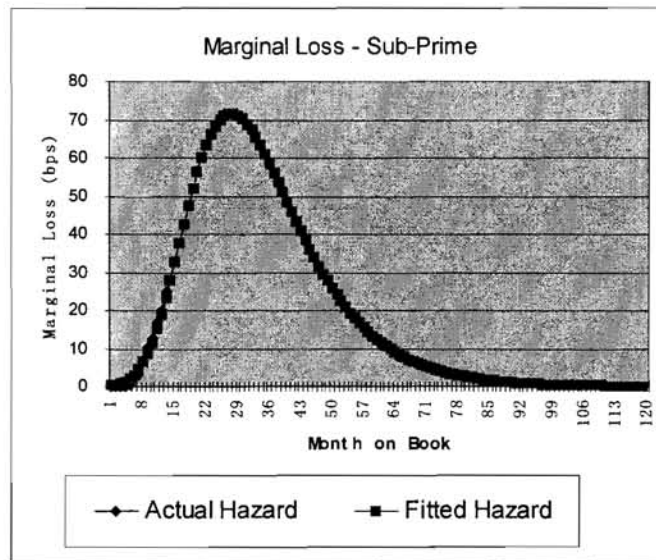
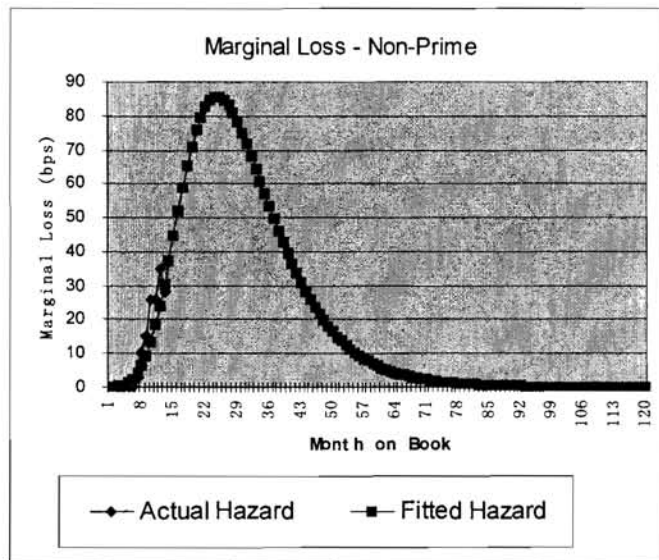
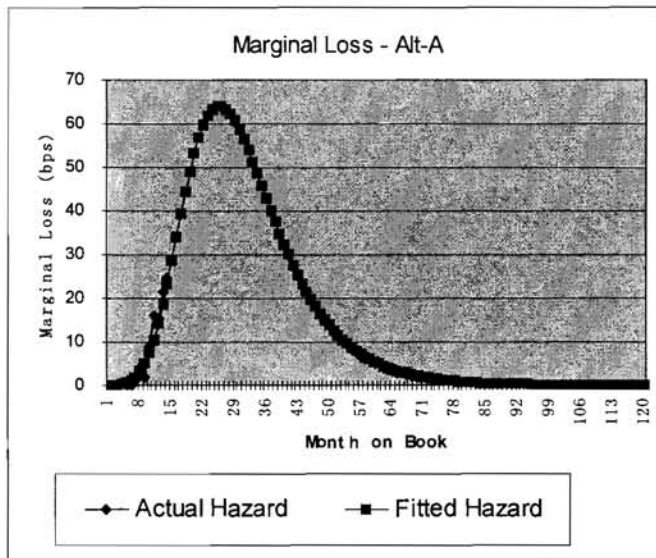
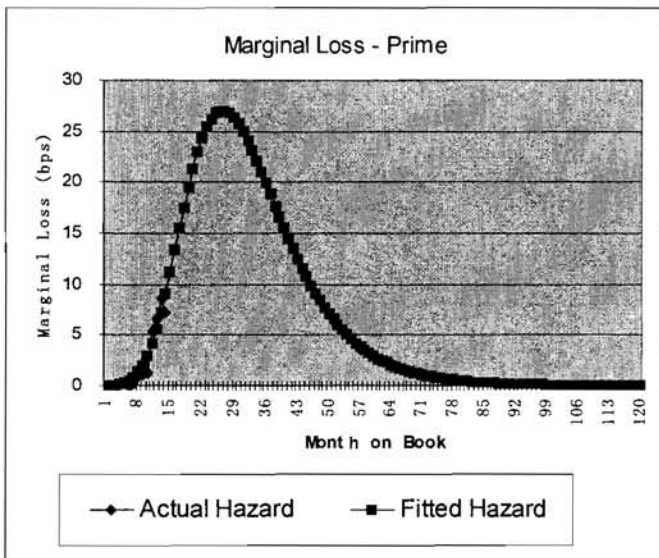
Marginal Loss: 2007A Vintage





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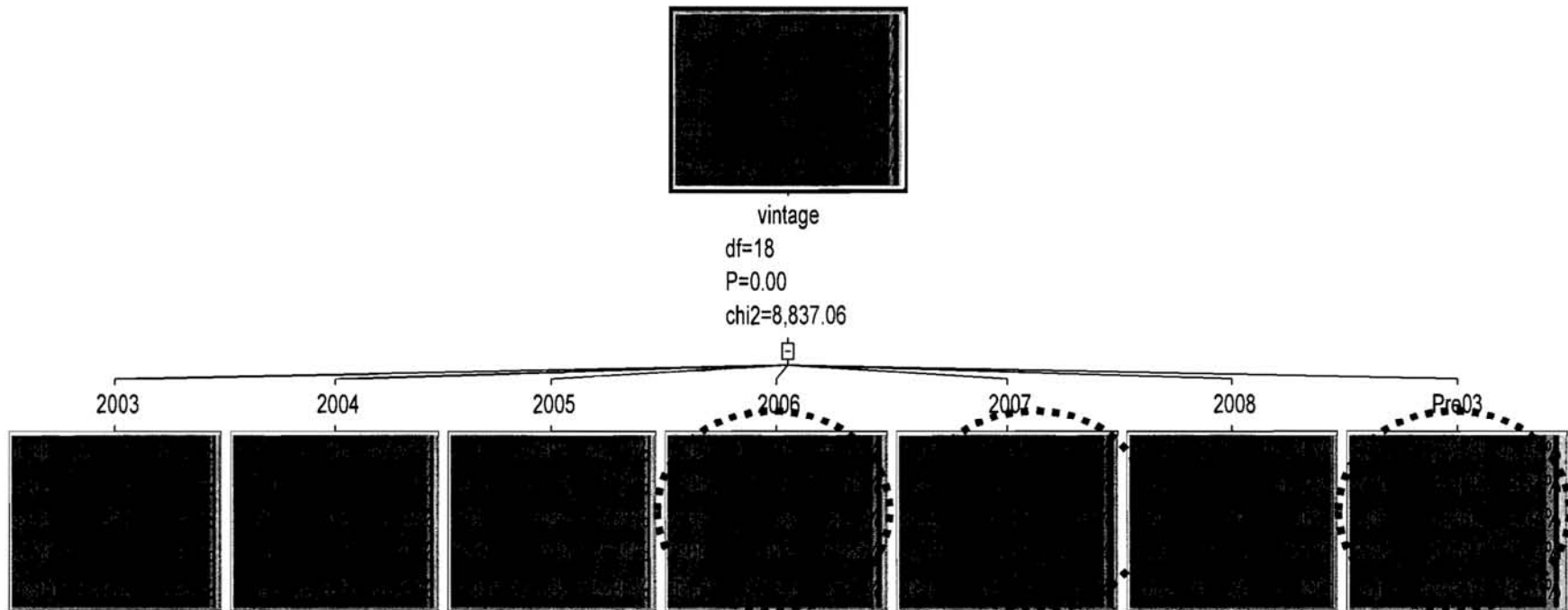
Marginal Loss: 2007B Vintage



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CHAID analysis on vintage



Migration by Vintages reveal that earlier vintages are indeed experiencing credit stress due to economic conditions as evidenced by higher than average migration rates across all buckets. 2006 and 2007 Vintages continue to show above average 60+ migration

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Credit Performance by Region

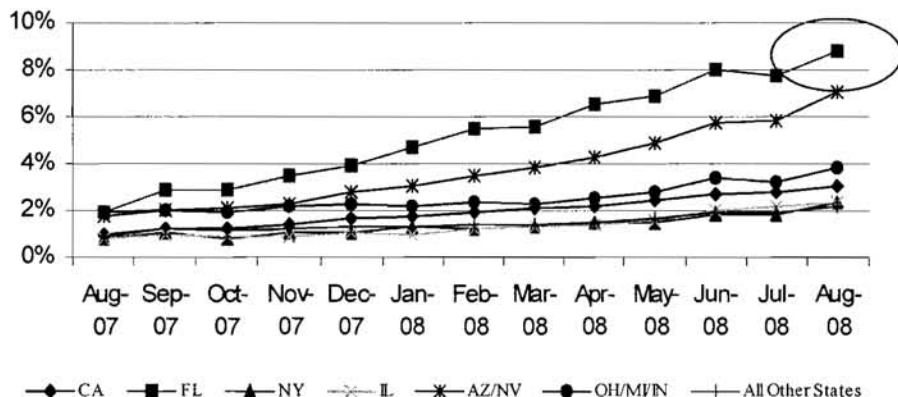
- FL: 6% of total portfolio, has the worst credit performance, continue to deteriorate with no sign of slowing down. In addition to HPI deterioration, FL has highest investor concentration (12.5% vs. 4.5% of CA). Also, vintage 2008 performs even worse ---- policy hangover.
- AZ & NV: significantly under perform vs. portfolio average. They are catching up at faster speed to FL performance level, especially in Prime space. Higher investment property concentration is observed.
- CA: 30% of total portfolio, deteriorated from below portfolio average to close to average, but has slowed down in recent months.
- NY: 8% of total portfolio, still better than portfolio average, but deteriorated faster mainly in AltA & Prime, region to watch out for.
- OH, MI & IN: significant under perform vs. portfolio average, especially, Nonprime & Subprime, Prime & AltA in vintage 2005 & prior

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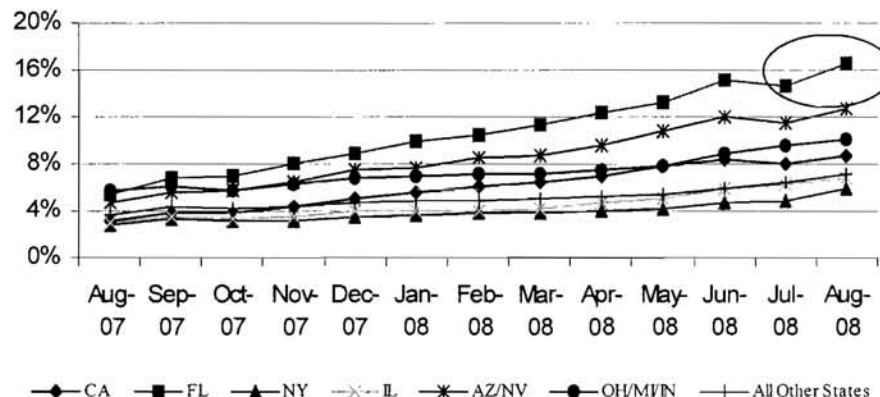


30+ Trends By Region - Total

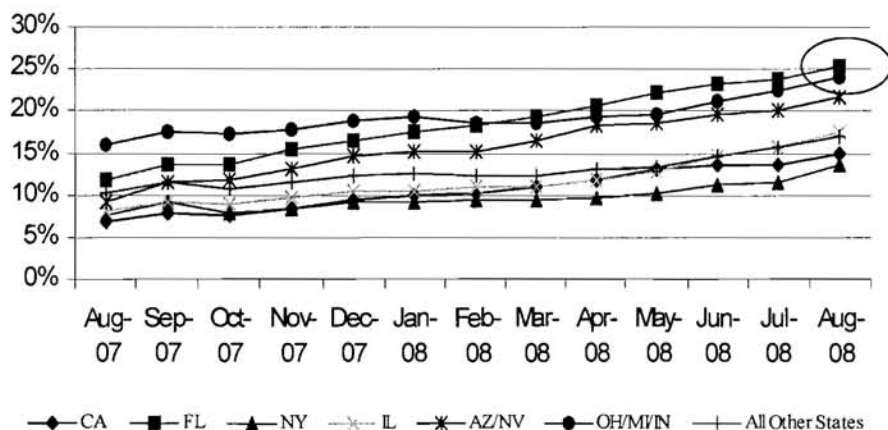
Prime



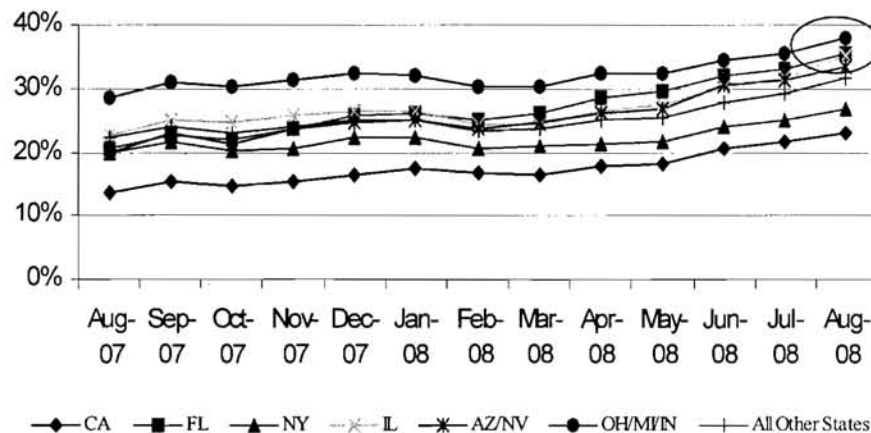
Alt A



Non Prime



Subprime

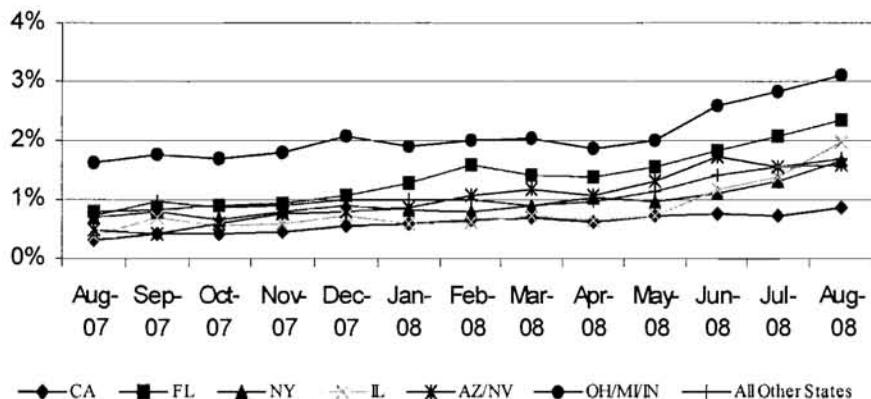


Real Estate Lending

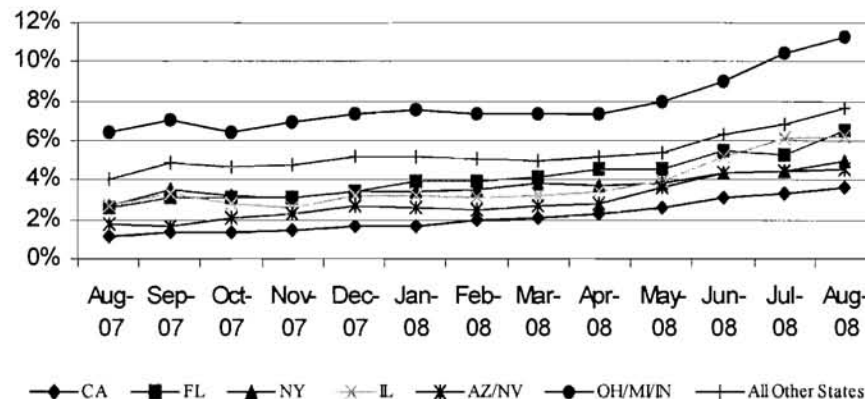


30+ Trends By Region – Vintage Prior 2005

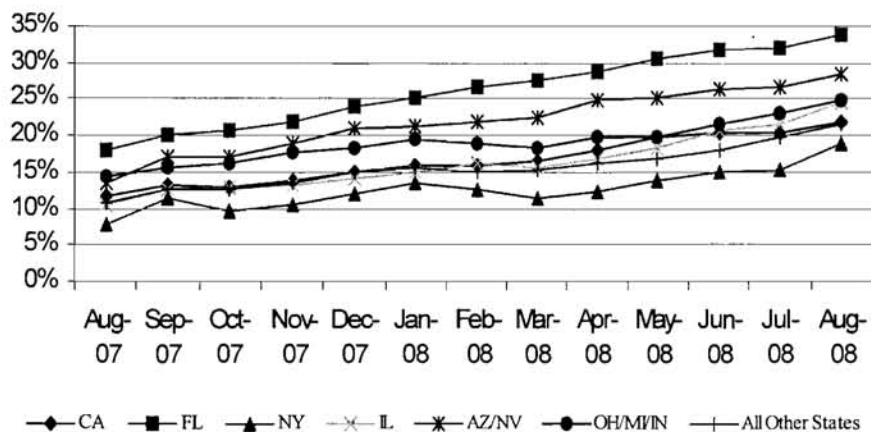
Prime



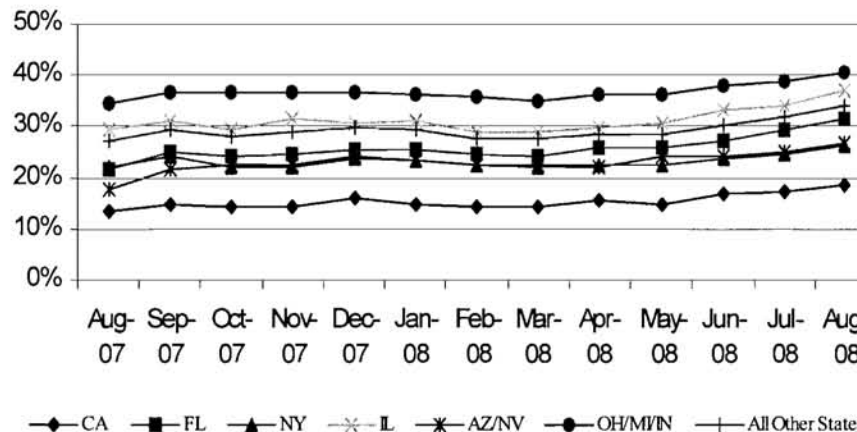
Alt A



Non Prime



Subprime

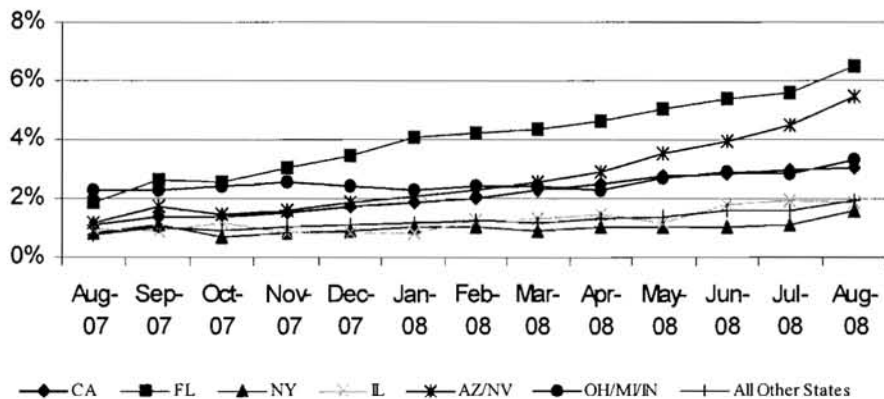


Real Estate Lending

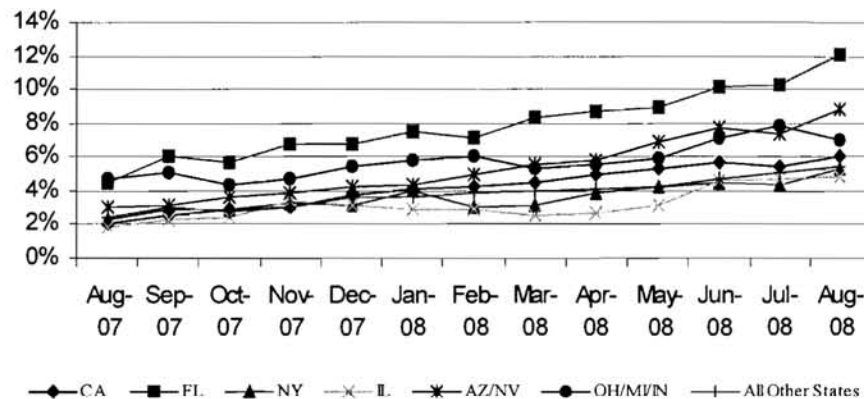


30+ Trends By Region – Vintage 2005

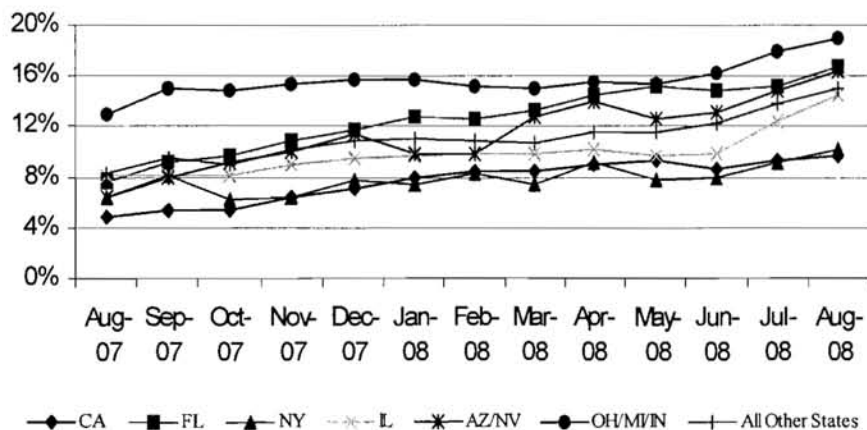
Prime



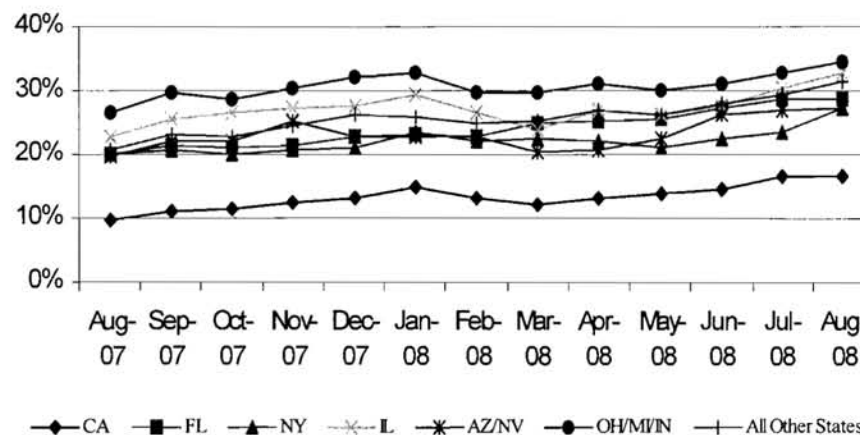
Alt A



Non Prime



Subprime

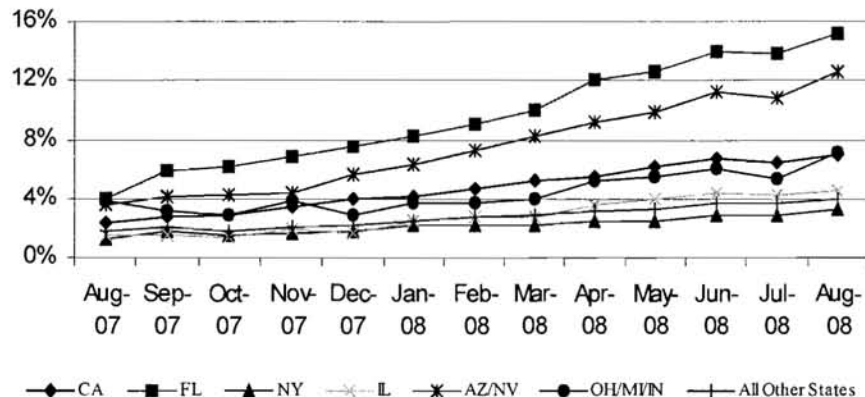


Real Estate Lending

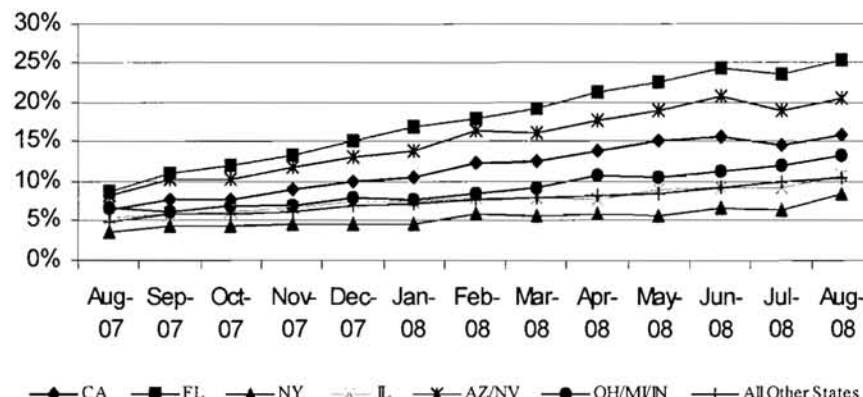


30+ Trends By Region – Vintage 2006

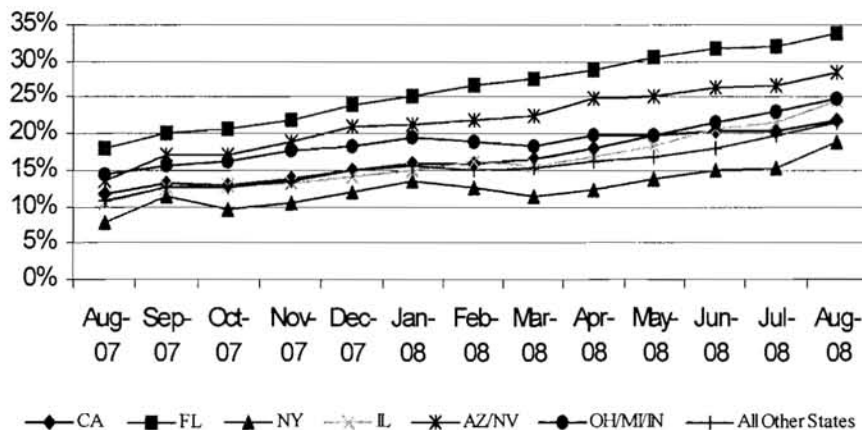
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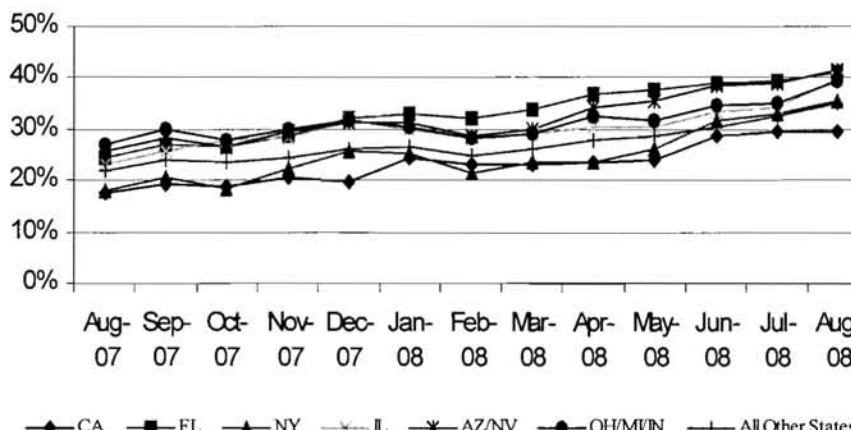
Alt A



Non Prime



Subprime

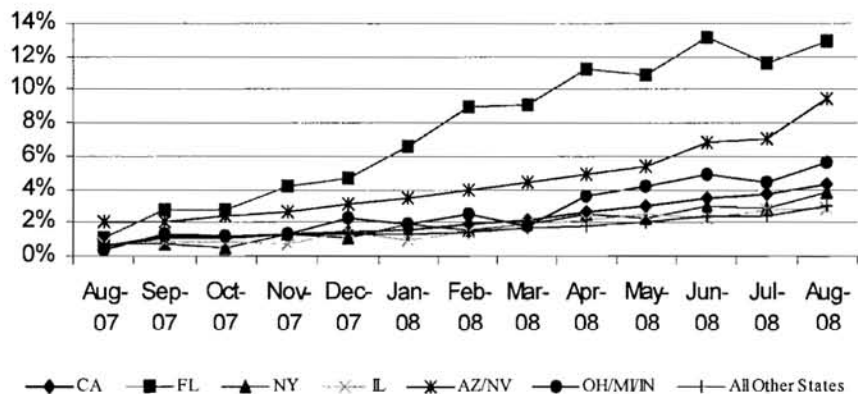


Real Estate Lending

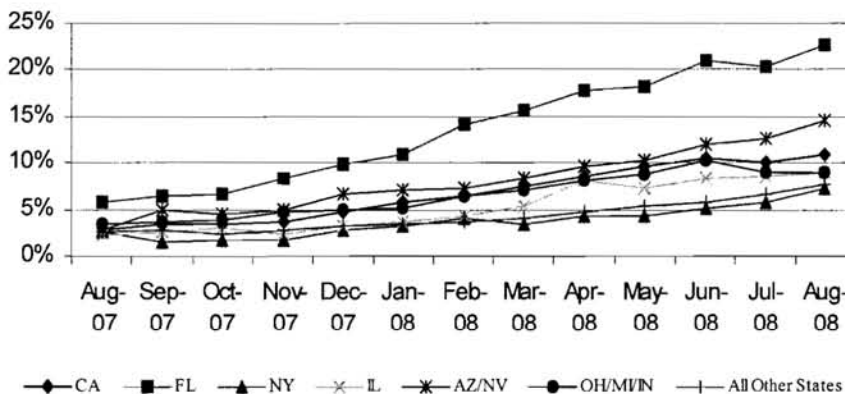


30+ Trends By Region – Vintage 2007

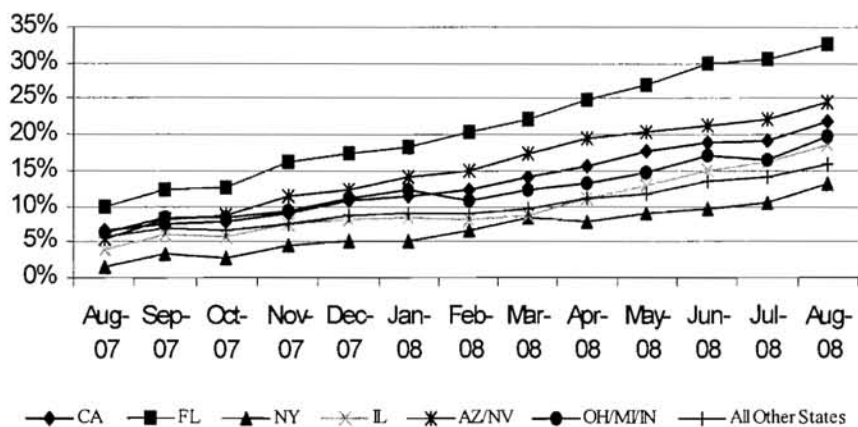
Prime



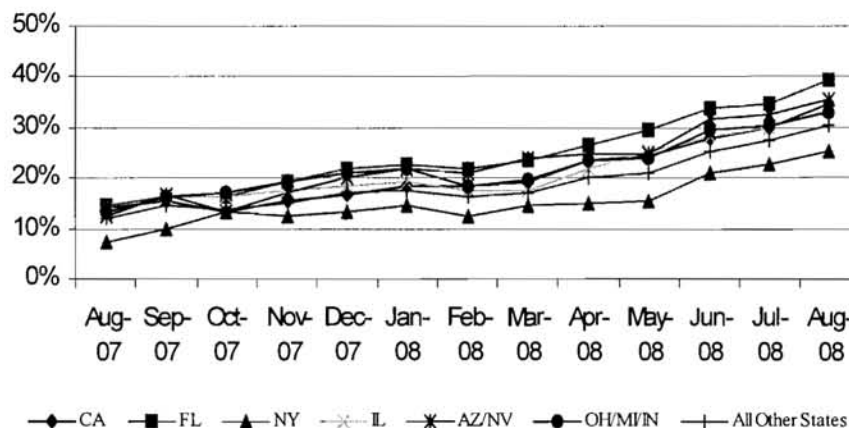
Alt A



Non Prime



Subprime

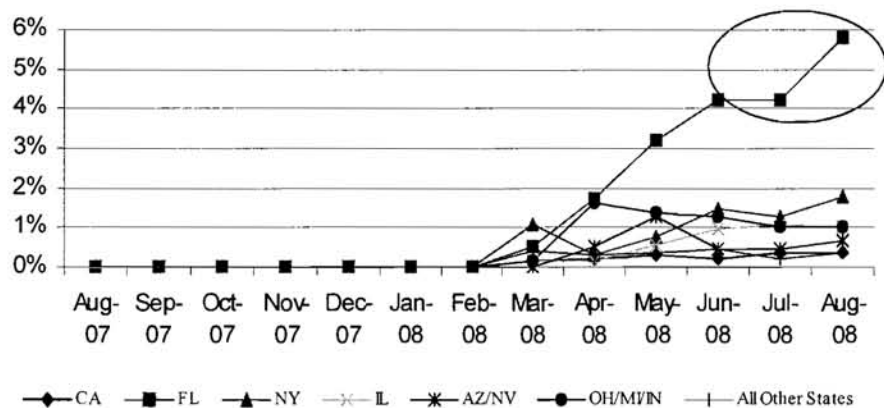


Real Estate Lending

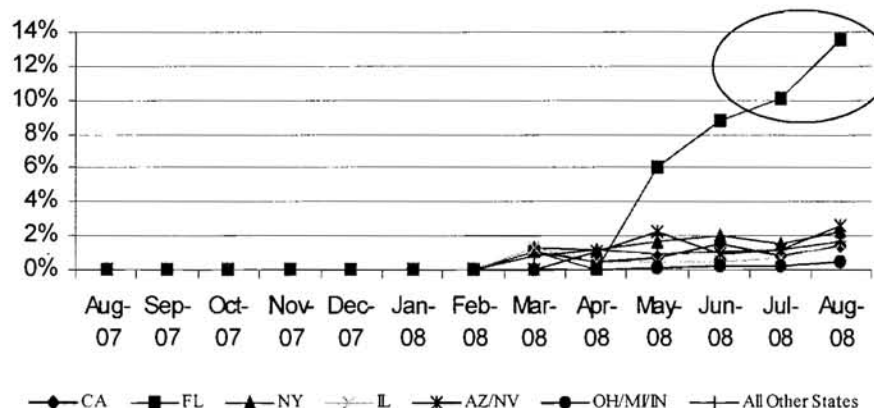


30+ Trends By Region – Vintage 2008

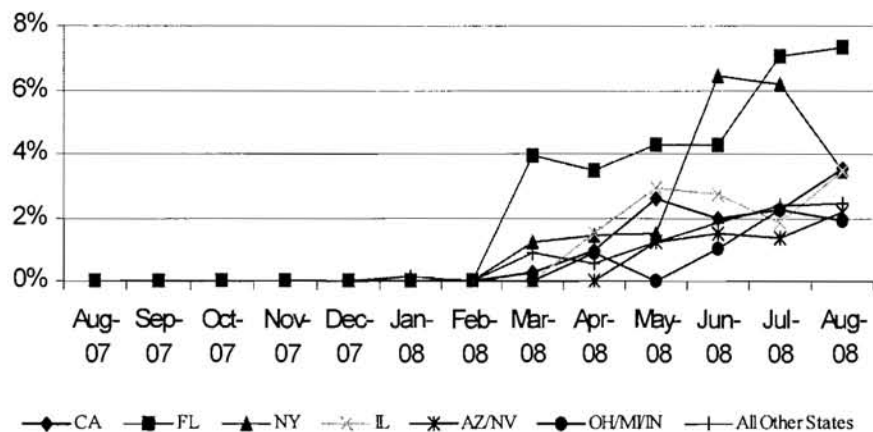
Prime



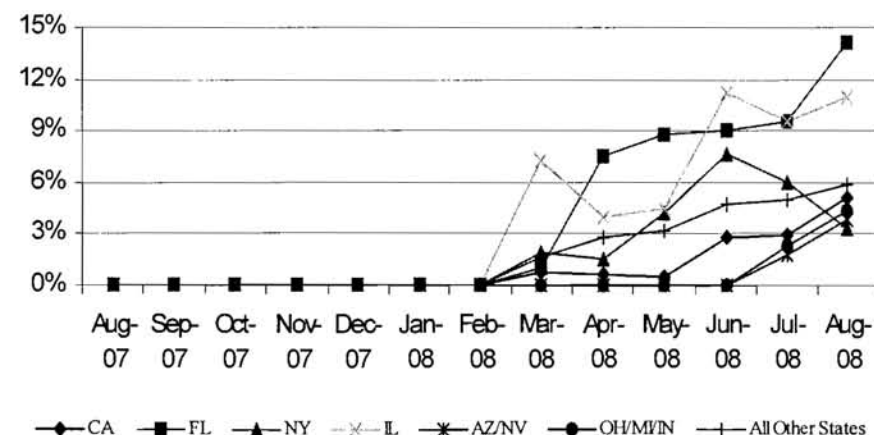
Alt A



Non Prime



Subprime



Real Estate Lending



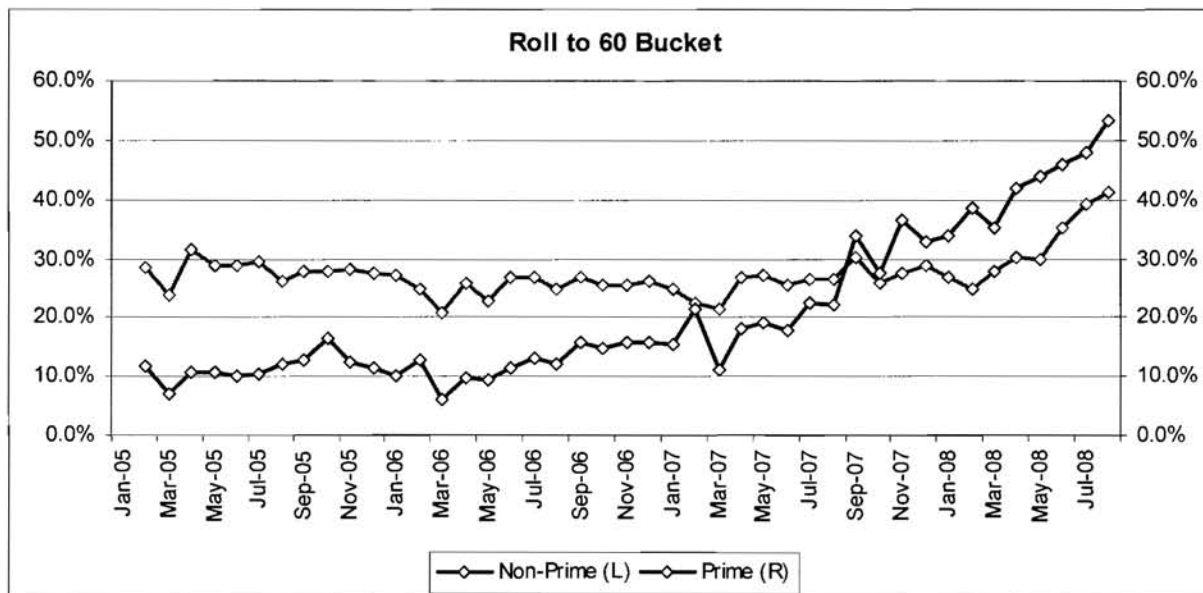
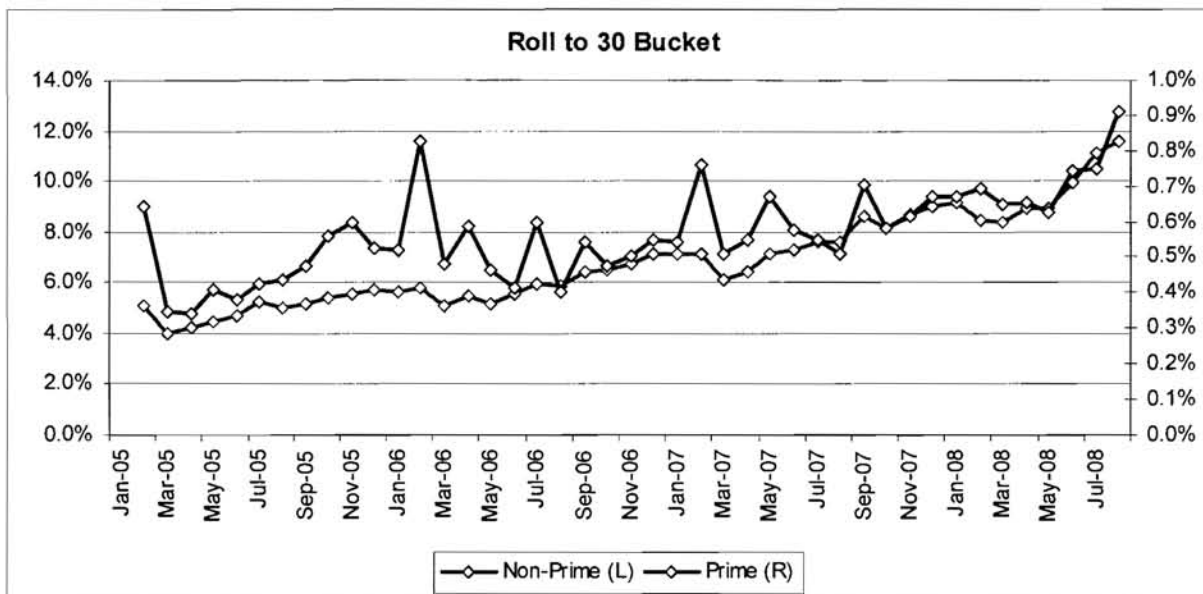
Credit Performance by Risk Segments

- Subprime & Nonprime: still contribute to the largest portion of credit losses, and continue to deteriorate
- Prime & AltA demonstrated faster deterioration than Subprime and Nonprime.

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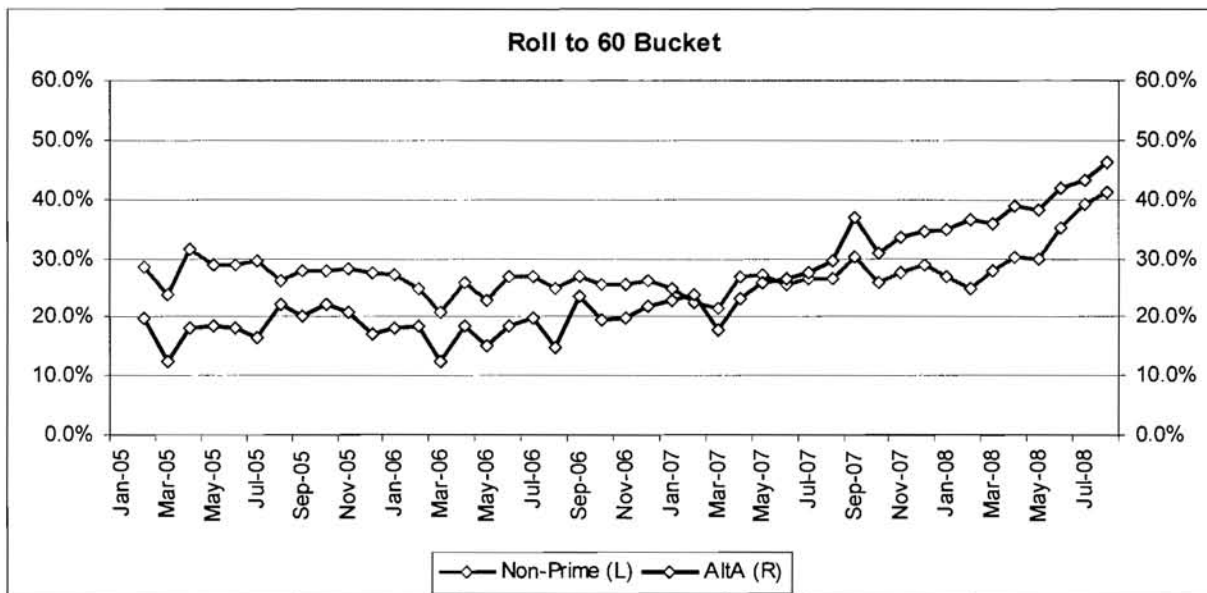
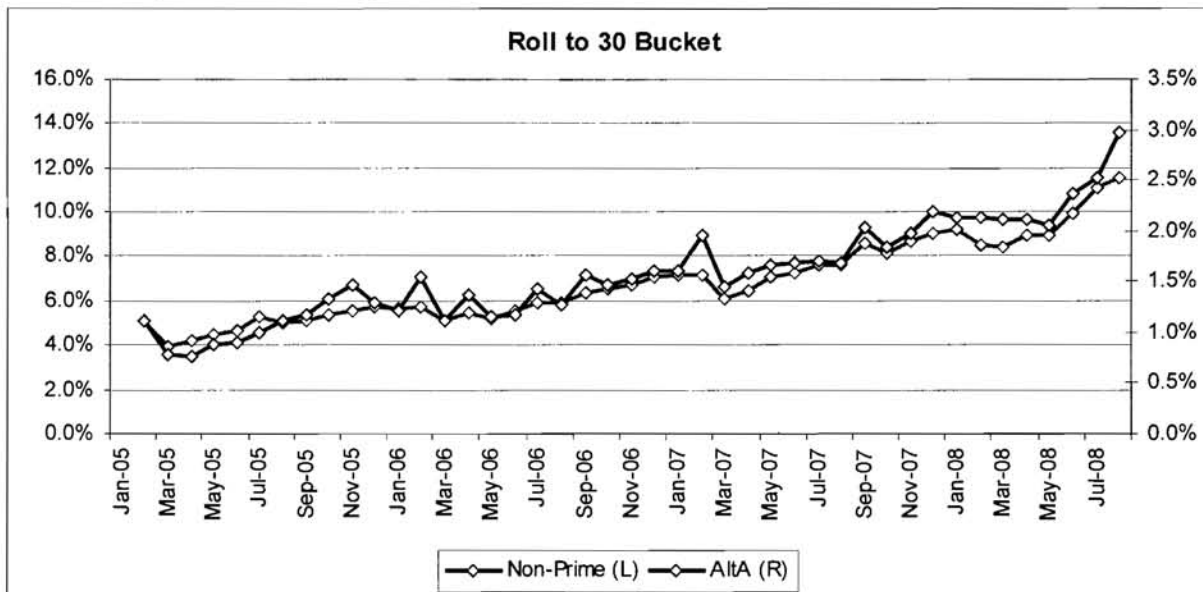
Credit Performance by Risk Segments: NP vs. Prime



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Credit Performance by Risk Segments: NP vs. AltA



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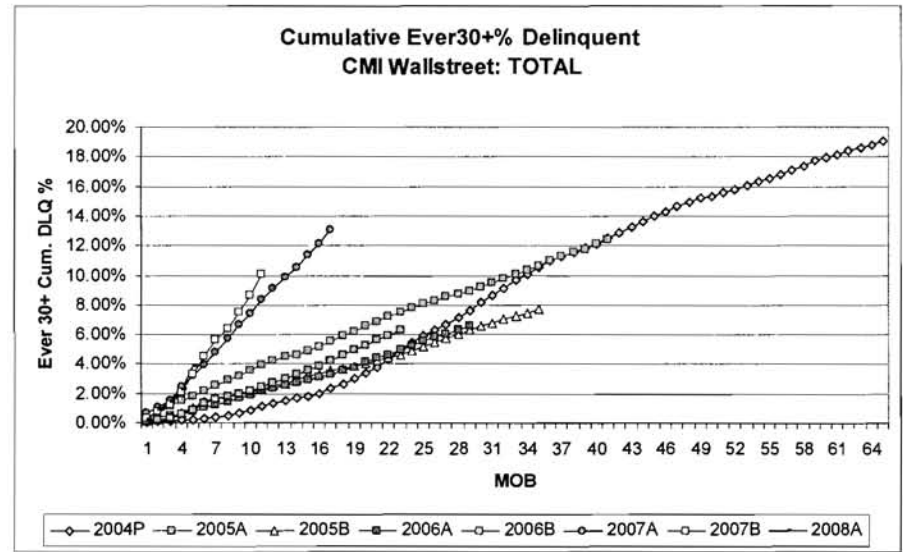
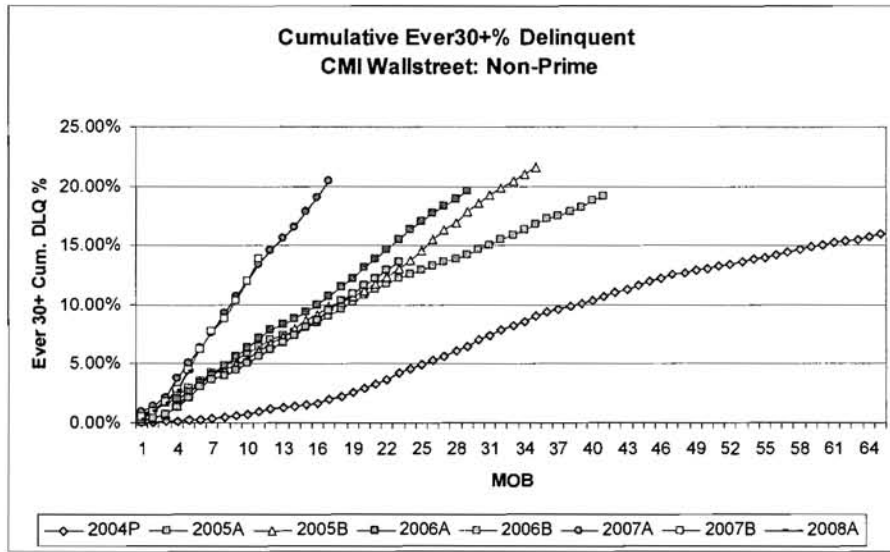
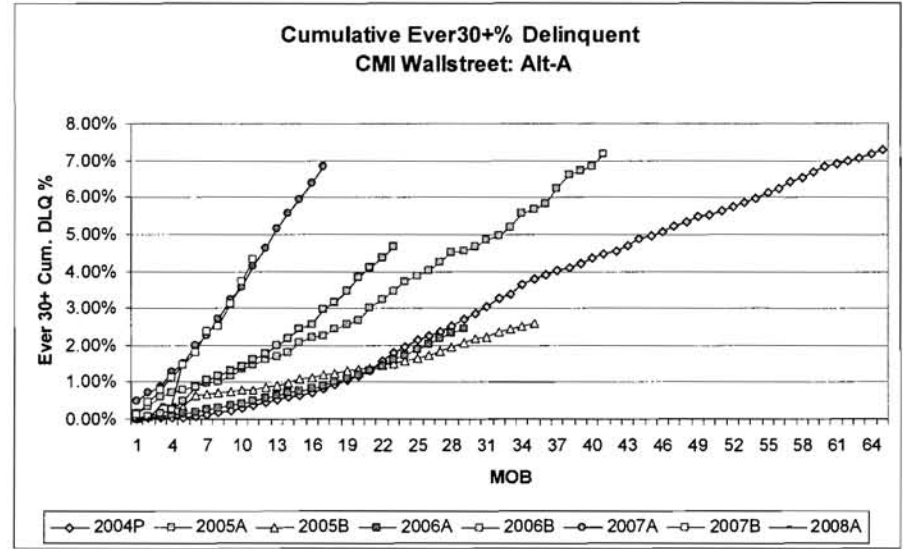
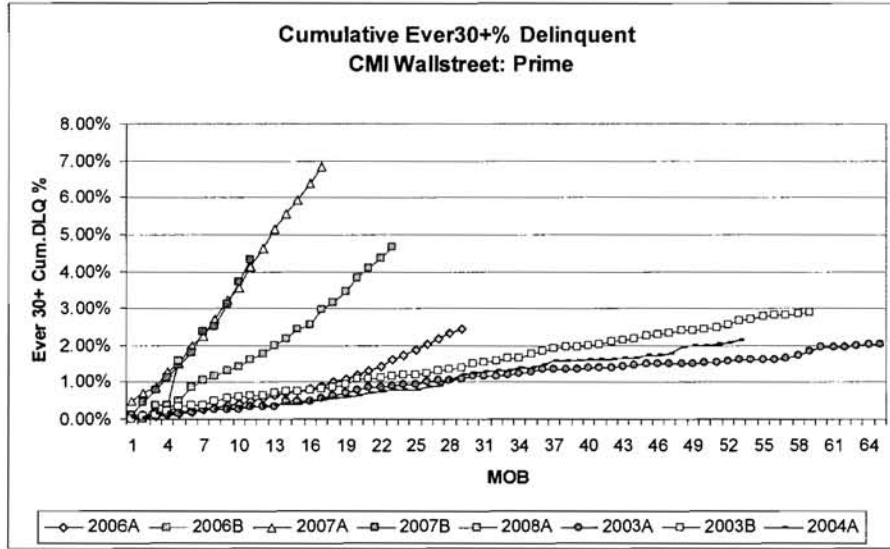
Credit Performance by Channel

- Wall Street Channel continue to under perform to portfolio average, non-Wall street channels deteriorated faster, especially broker channel.

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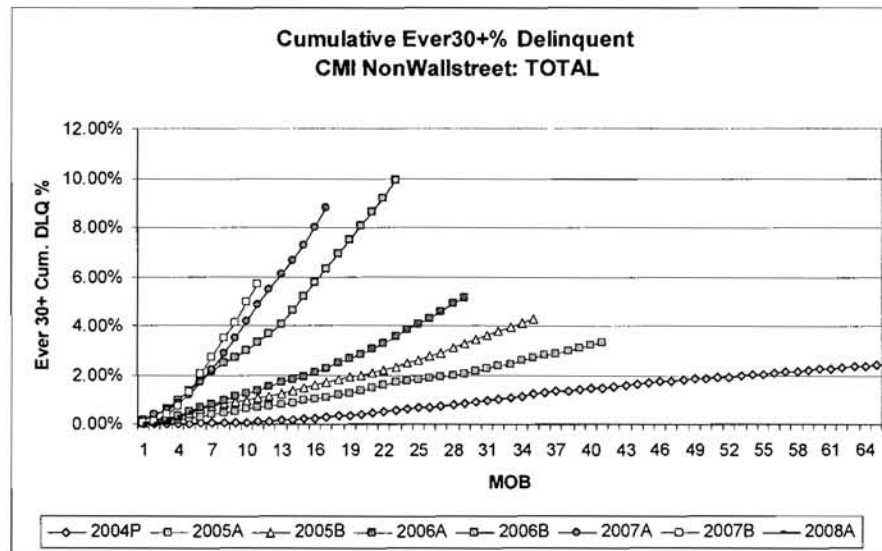
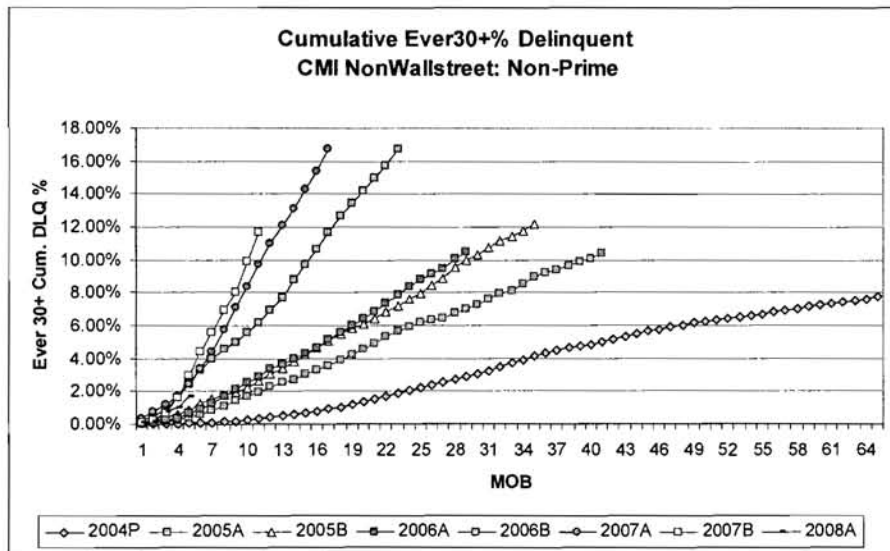
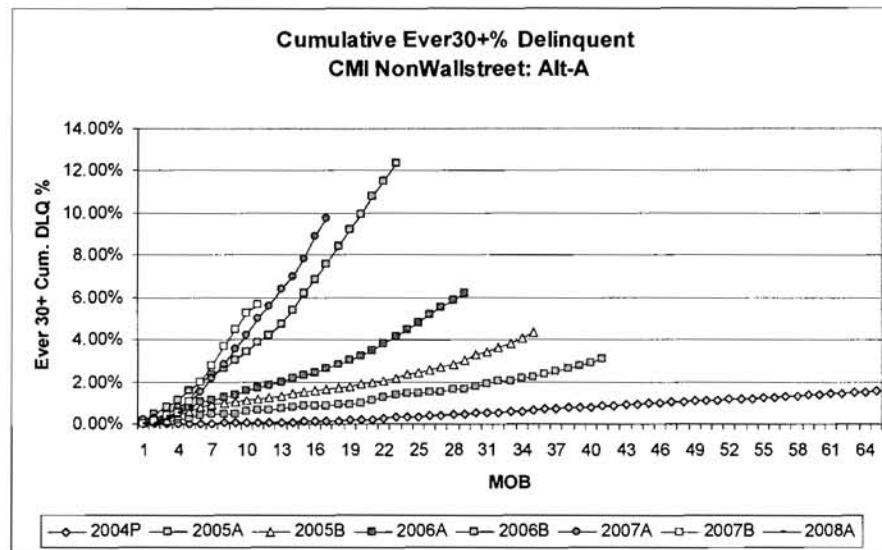
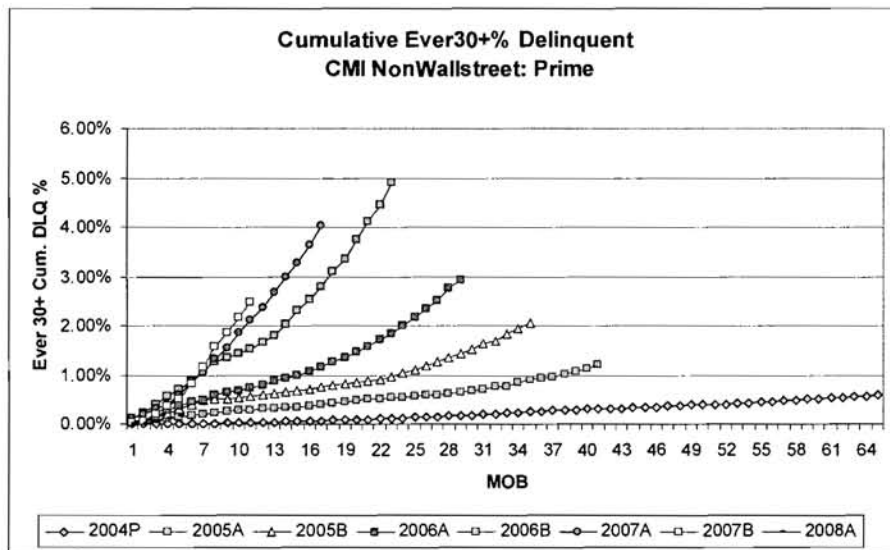
Cumulative Ever 30+ DLQ Rates : Wall Street



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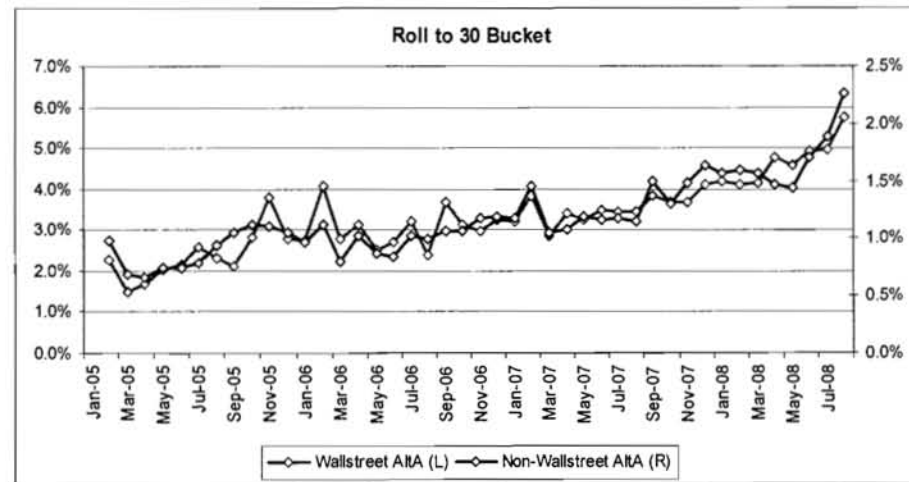
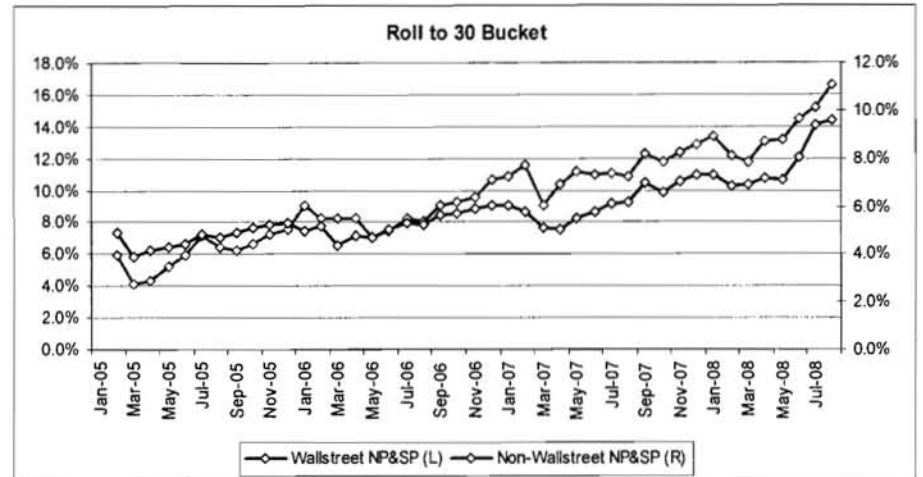
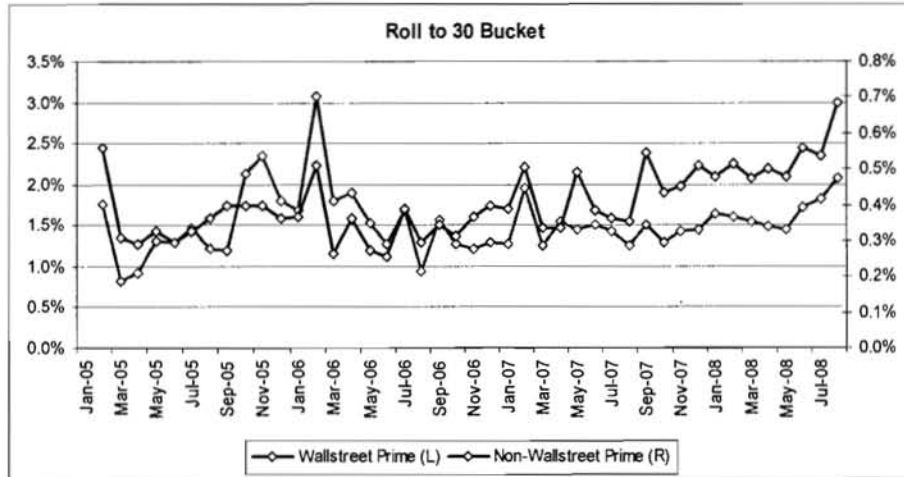
Cumulative Ever 30+ DLQ Rates : Non-Wall Street



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Credit Performance by Channel



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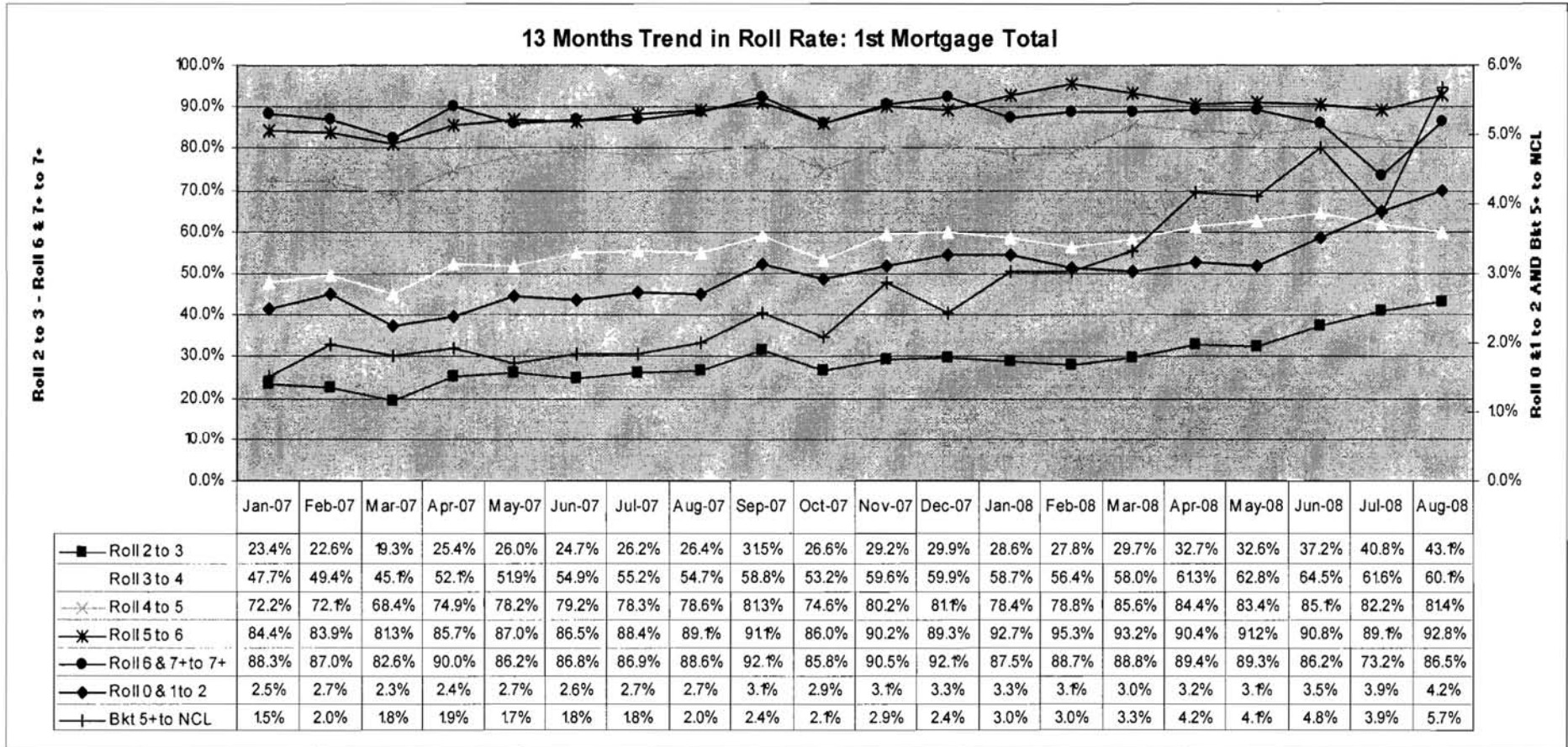
Credit Performance of Roll Rates

- Overall, all buckets roll rates deteriorated, especially in early bucket roll (Roll 0-1 and Roll 1-2) and roll-to-loss (Roll 5 to loss). Late bucket roll rate deterioration is the result of: a) loss acceleration; b) loss severity increase due to house depreciation pressure

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Roll Rates - 1st Mortgage



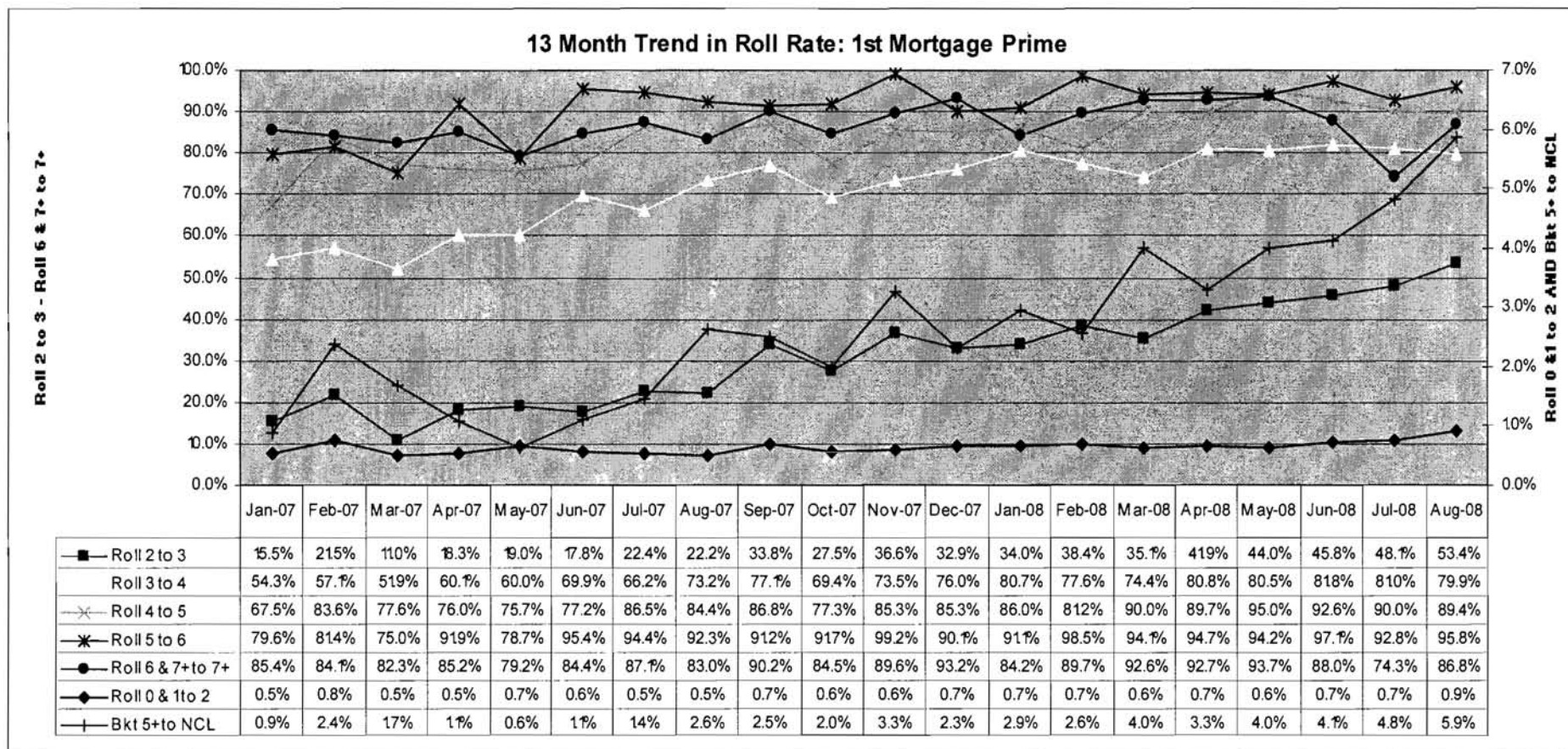
* Sept'08 data is based on collection flash

Roll Rates for Bucket 0 & 1 to 2, 2 to 3 and 5+ to NCL show continuous deterioration

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Roll Rates - 1st Mortgage Prime

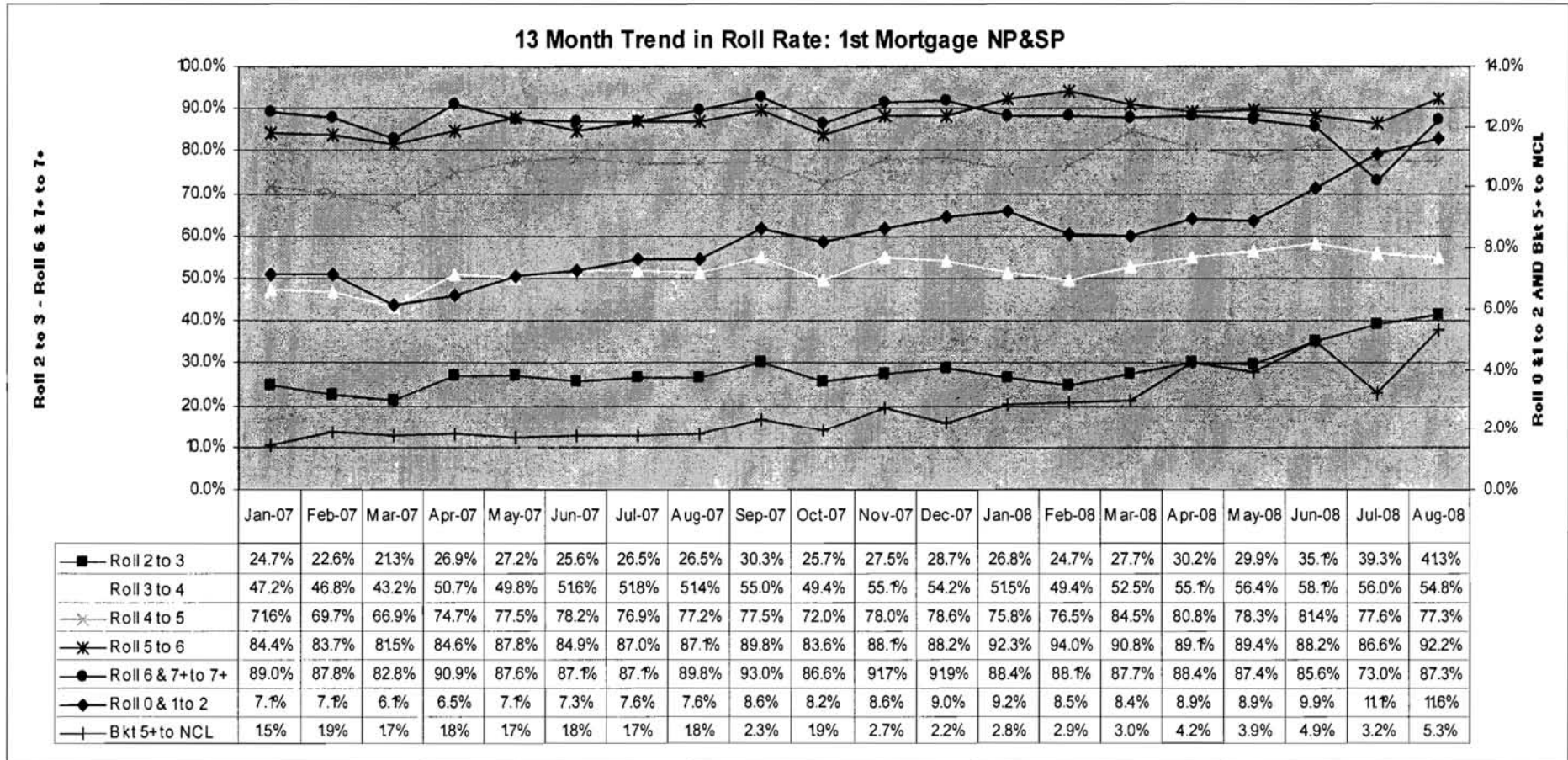


* Sept'08 data is based on collection flash

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Roll Rates - 1st Mortgage NonPrime/Subprime

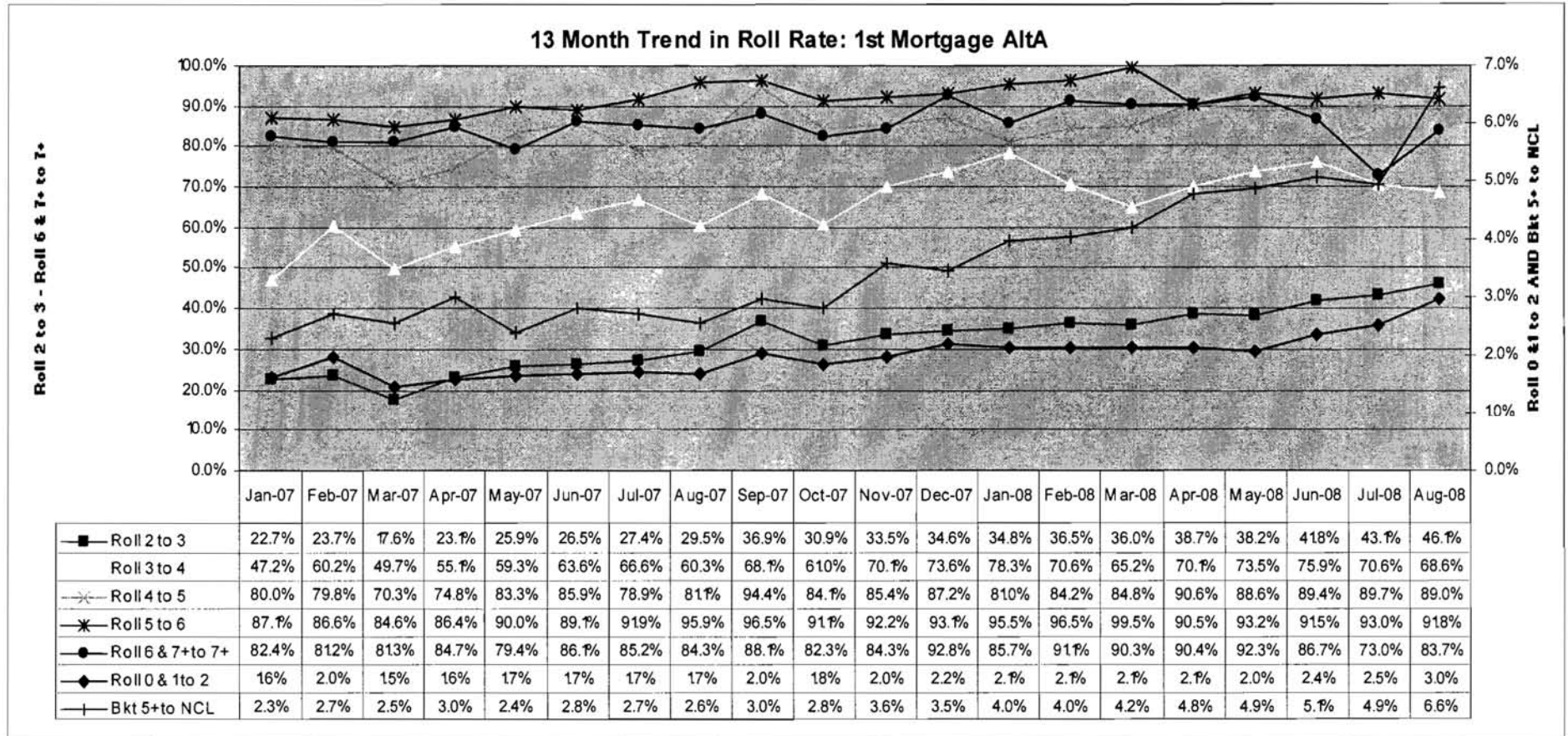


* Sept'08 data is based on collection flash

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Roll Rates - 1st Mortgage AltA

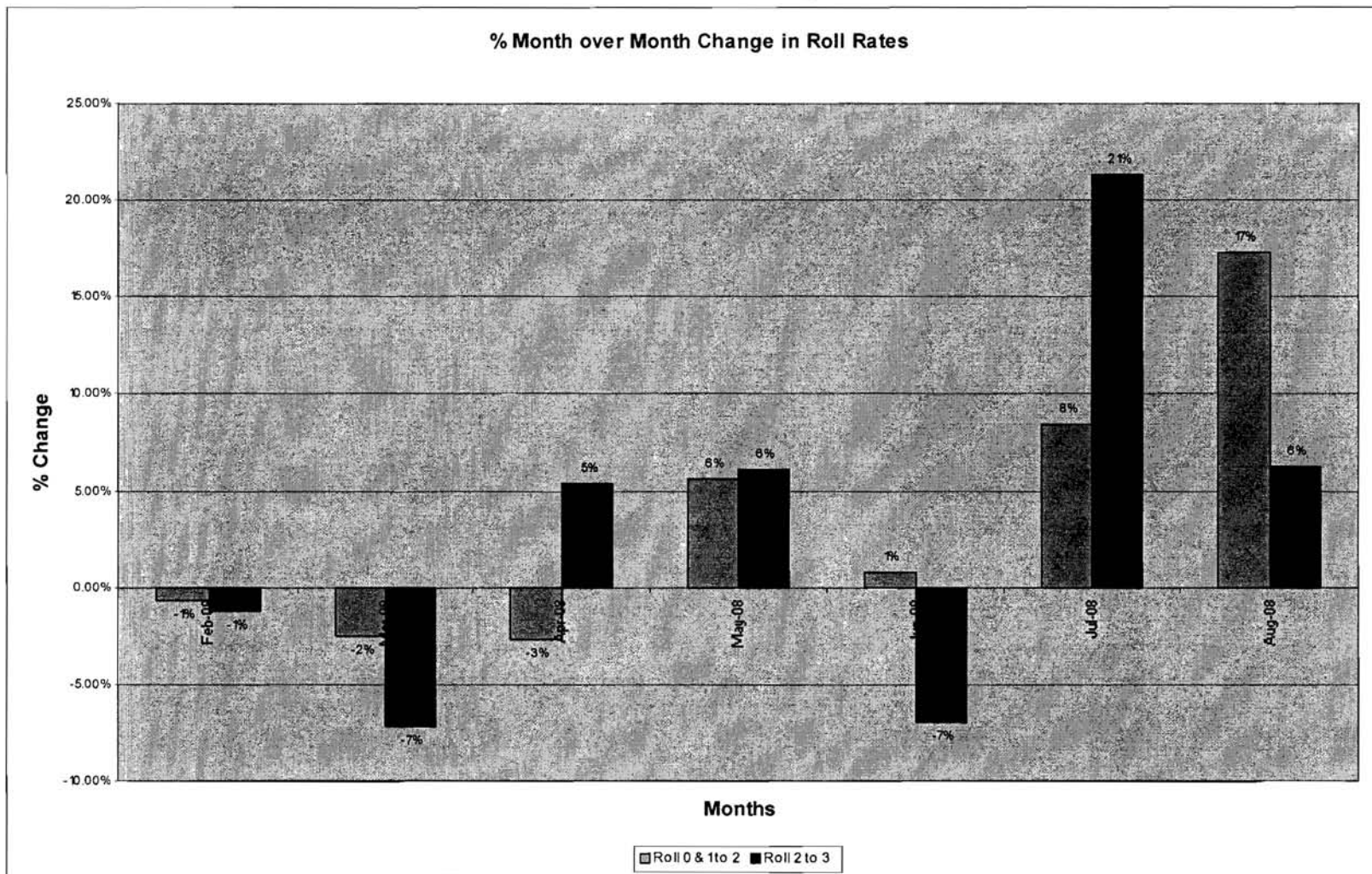


* Sept'08 data is based on collection flash

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% Change in Roll Rates: Pre 2003 Vintages

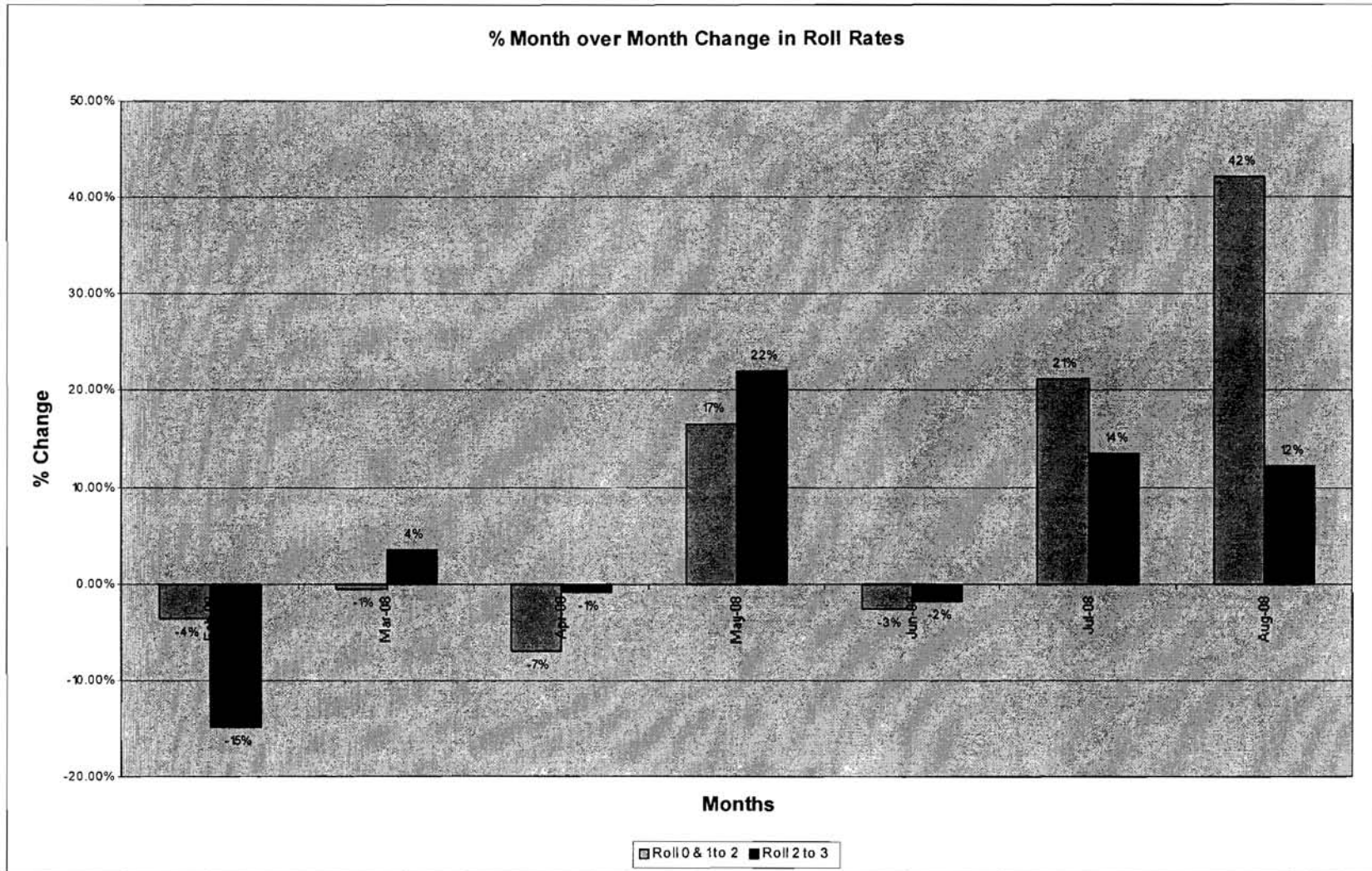


All earlier vintages are showing significant month over month deterioration: Sign of Economic Stress?

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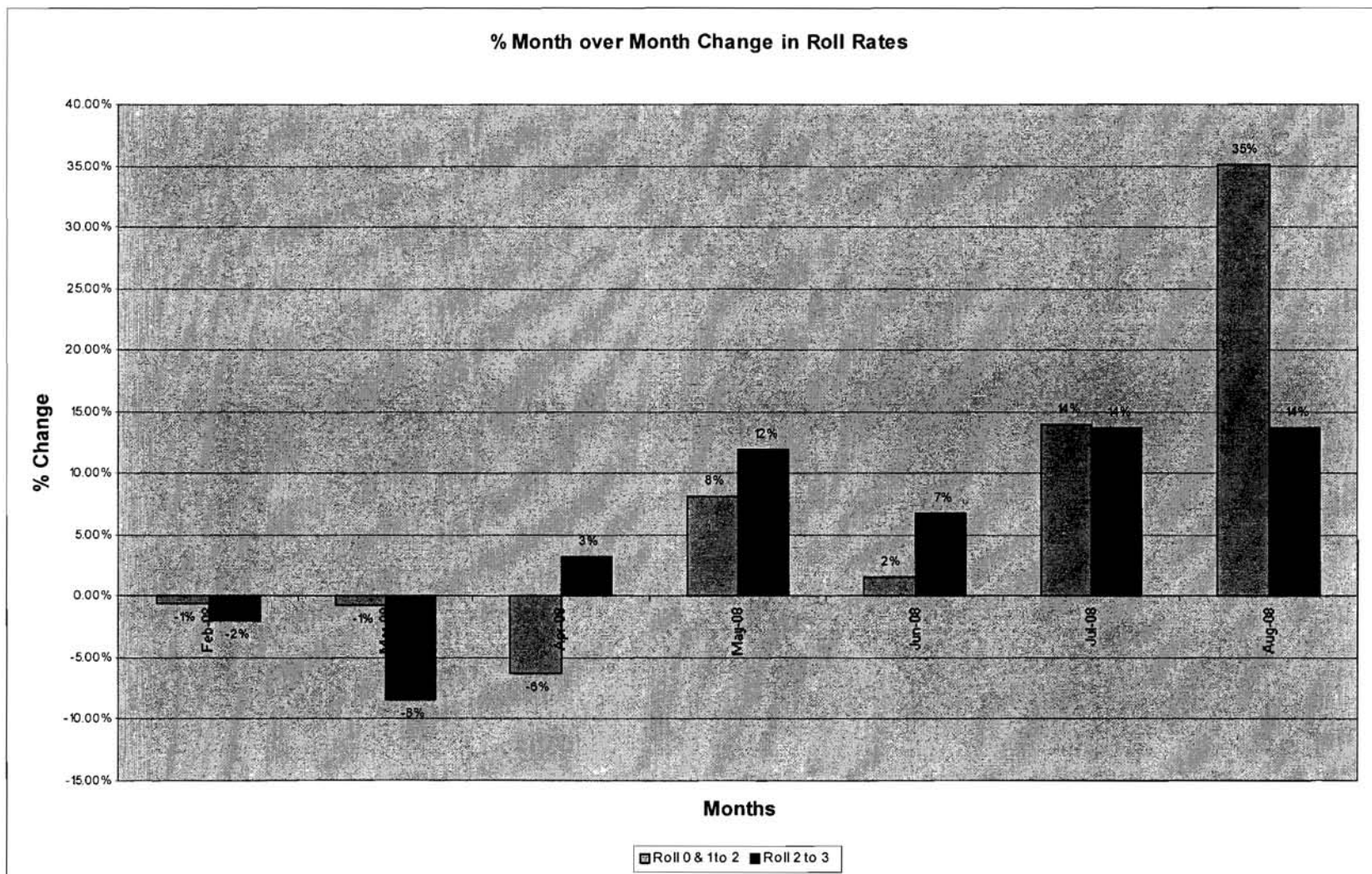
% Change in Roll Rates: 2003 Vintage



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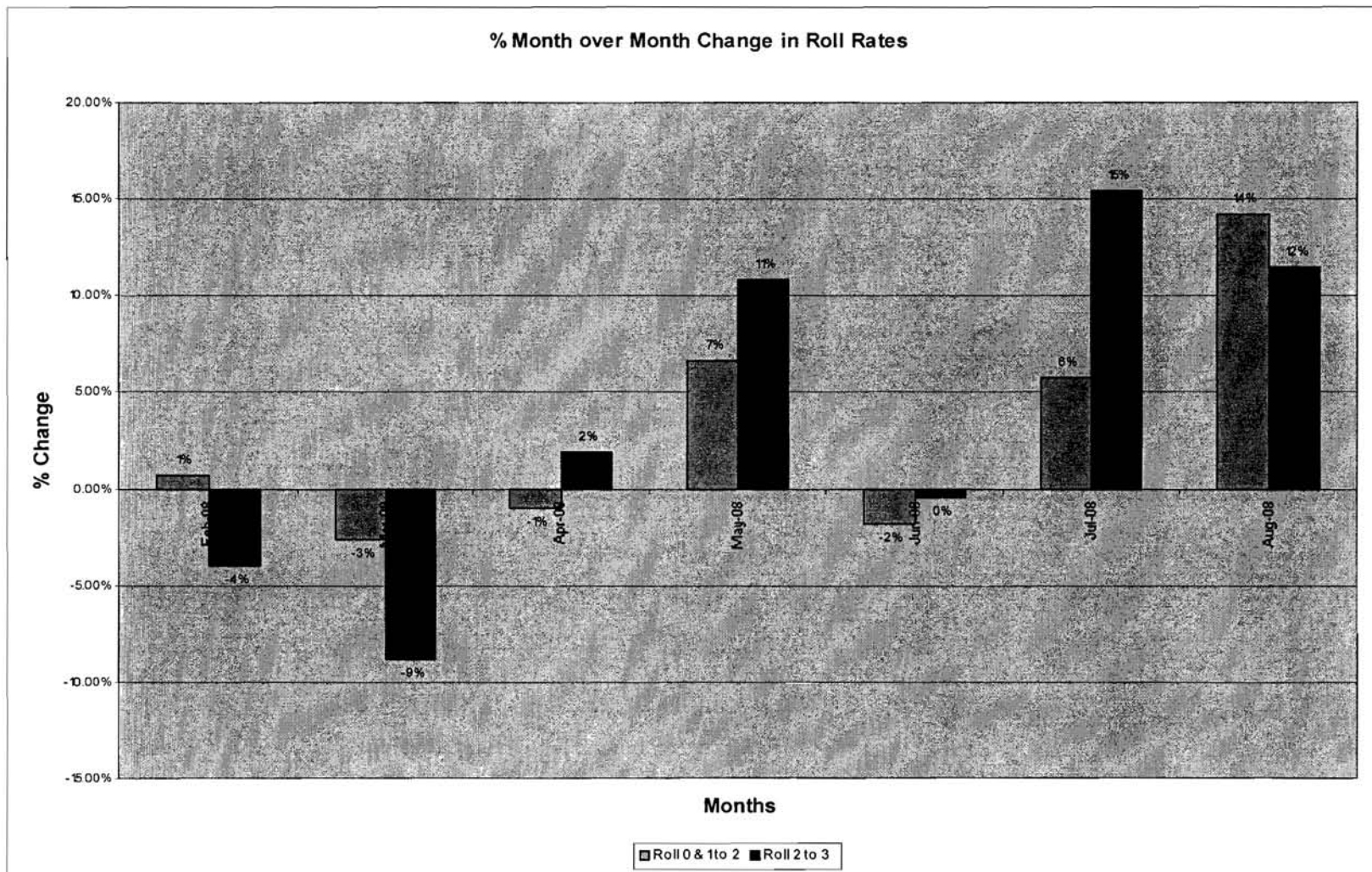
% Change in Roll Rates: 2004 Vintage



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% Change in Roll Rates: 2005 Vintage



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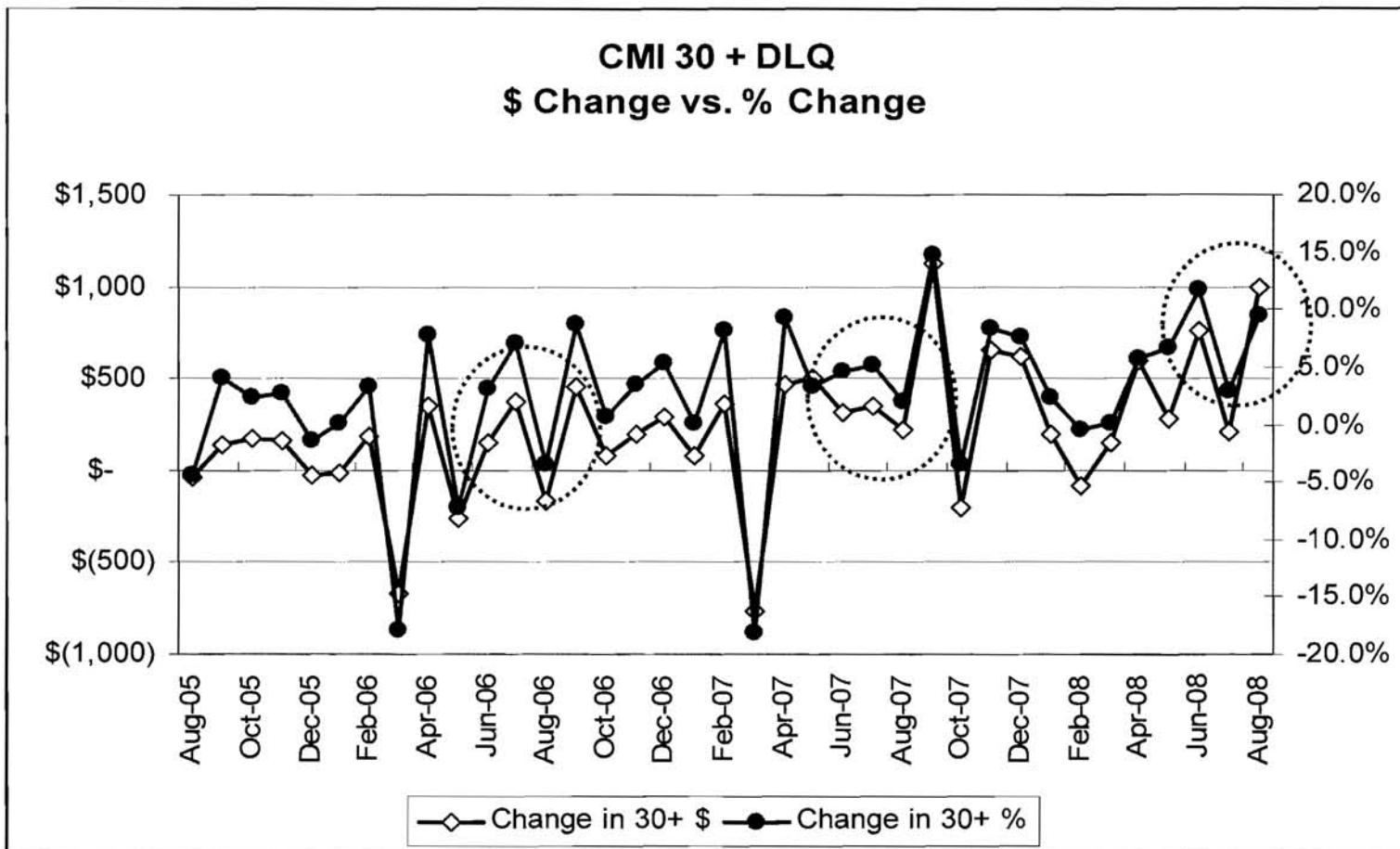
Credit Performance - Seasonality

- Past seasonality pattern overshadowed by recent deterioration trends.

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1st Mortgage \$30+DPD Seasonal and Trend Decomposition

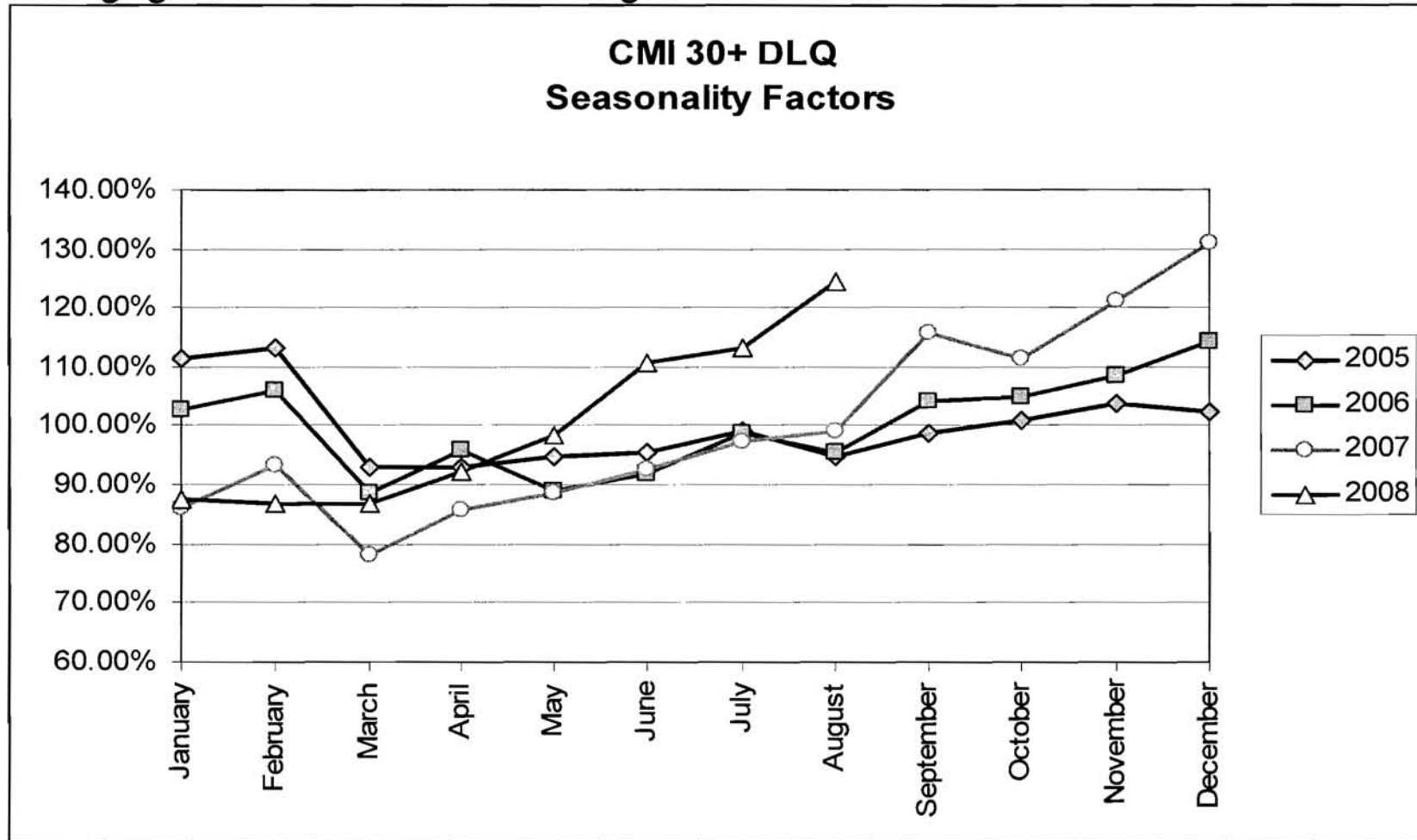


Historically August experienced a decline in month over month \$ change in DLQ and month-over-month %-change in DLQ. August-2008 was an exception!

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1st Mortgage \$30+ DPD Deteriorating Seasonal Index

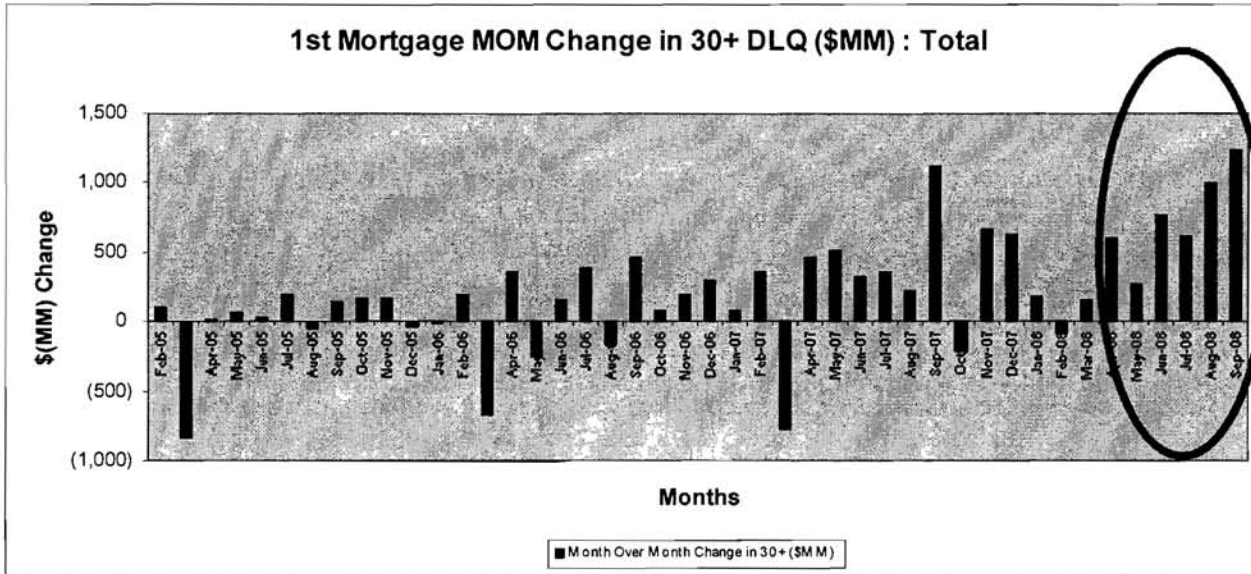


30+ DLQ Seasonal Indices reveal that 2008 Seasonal factors have substantially increased from prior years particularly since April. August-2008 30+ DLQ is 25% higher than August-05, August-06 and August-07.

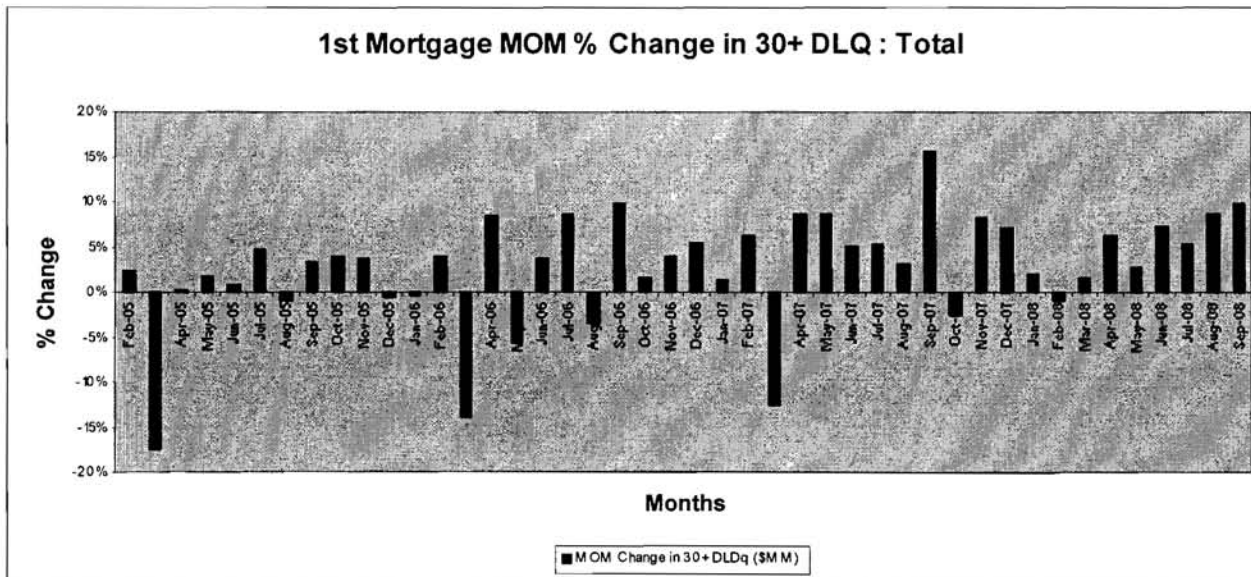
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CMI - Total



- New strong trend of continuous deterioration in 30+DPD
- Historical trend of March improvement is missing in 2008
- Historically August is an improved month but not in 2008

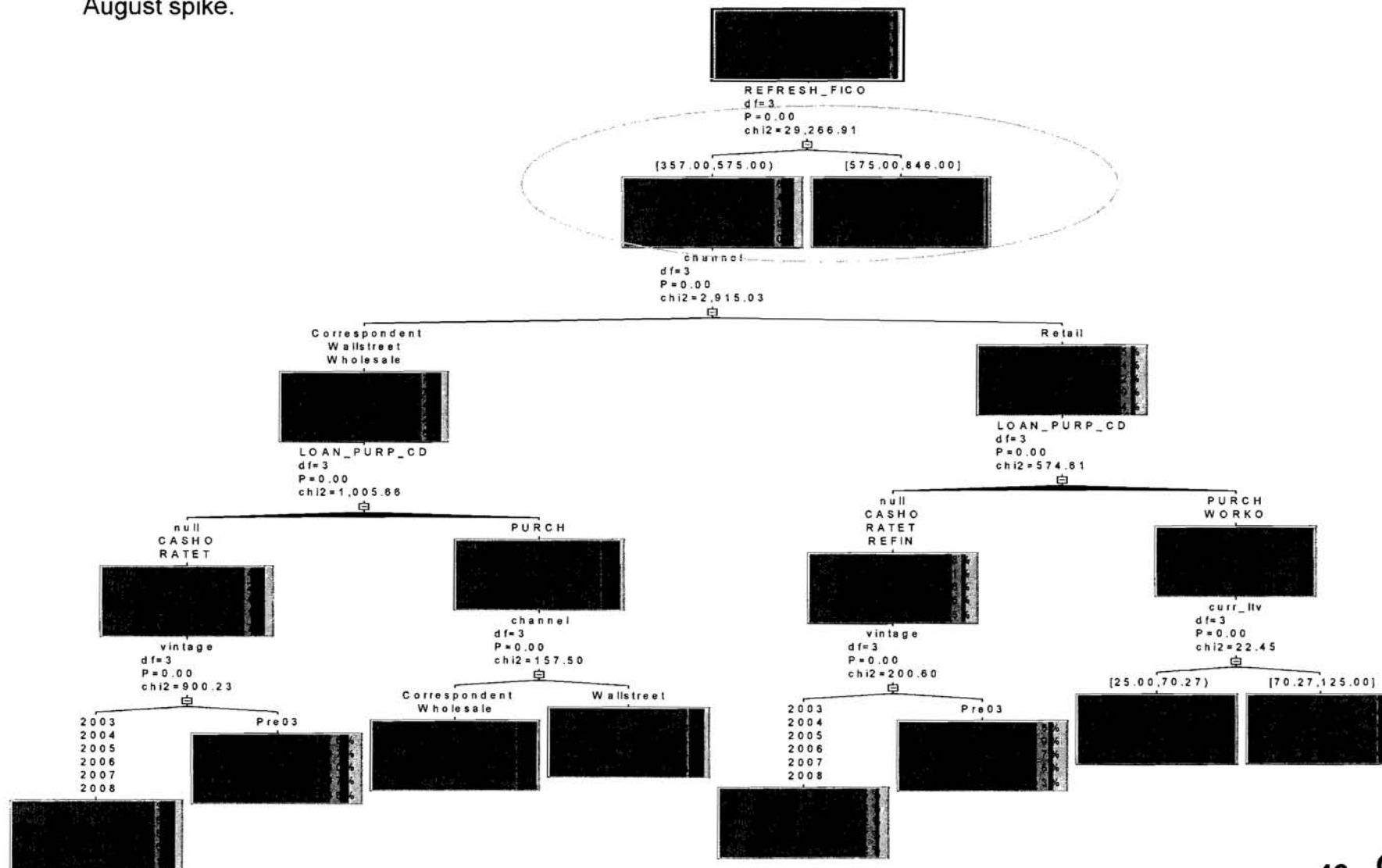


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Credit Performance – Refresh FICO

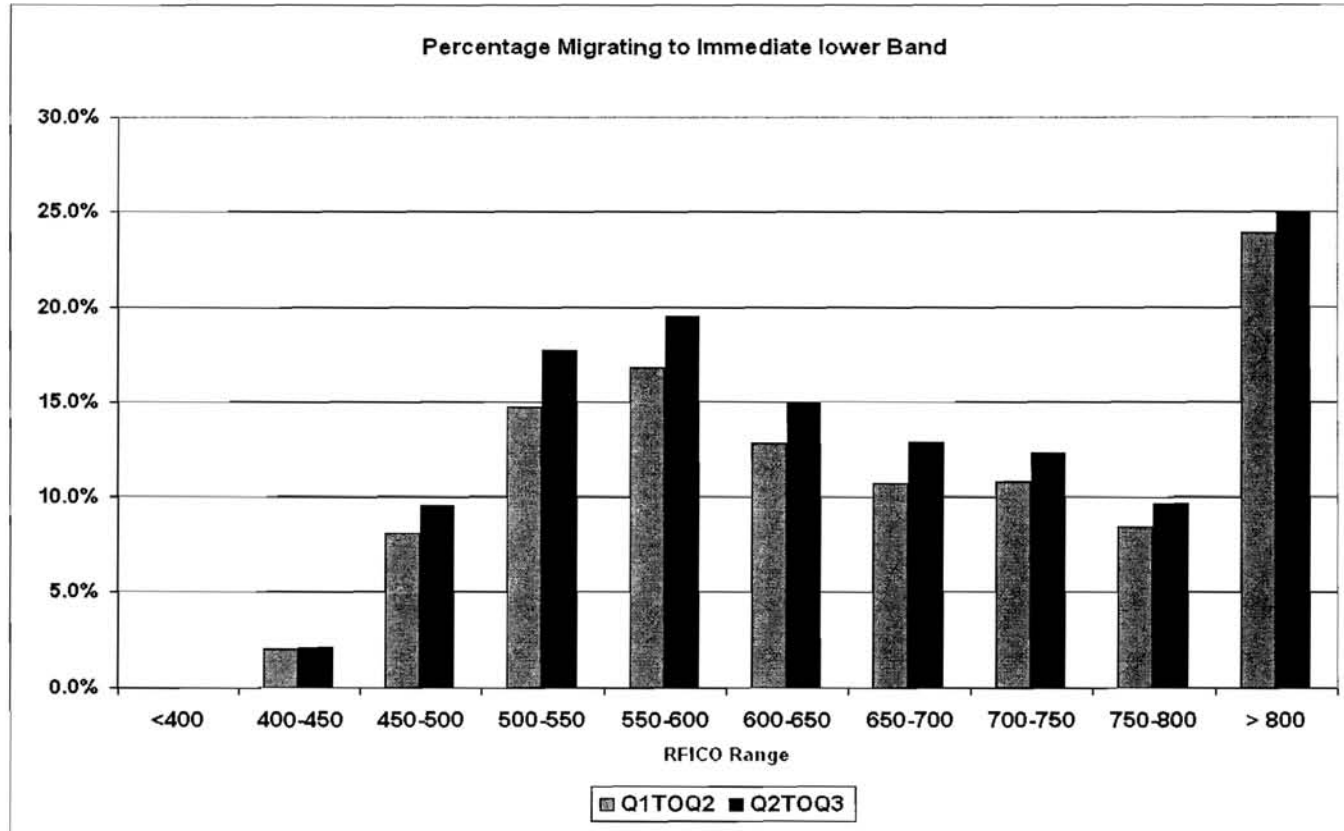
- Regardless which channel, region, vintage, etc, lower refresh FICO stands out as the dominant factors in \$30+ August spike.



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Refresh FICO Migration



Percentage of one bucket movement to the lower RFICO band was noticeably higher from Q2 to Q3 (as of August). It shows that quarter over quarter refresh FICO score has deteriorated with a 2 month lead within the recent delinquent loans. As the refresh FICO scores deteriorated in June and CMI experienced subsequent surge in delinquencies, it is indicative of stressed borrowers who are most likely past due in their non-mortgage obligations and now becoming late in their mortgage payments. A model based approach of identifying drivers of score migration using an Ordered Probit Model is being assessed by CMI Portfolio Risk.

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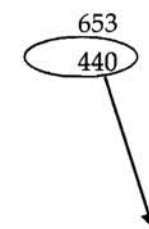
Credit Performance – Moral Hazard

30+ in Aug and not 30+ in last 2 months

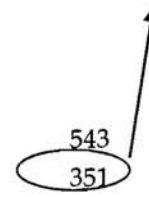
Refreshed FICO	Original DTI					Total	
	< 30	30 - < 40	40 - < 45	45 - < 50	50+		
< 660	8,664	3,338	2,262	2,331	2,441	19,036	87%
660 - 699	437	259	192	157	111	1,156	5%
700 - 719	122	73	60	61	25	341	2%
720 - 739	91	60	48	21	26	246	1%
740+	158	131	66	32	20	407	2%
Missing	363	84	59	49	47	602	3%
Total	9,835	3,945	2,687	2,651	2,670	21,788	100%

30+ in Jul and not 30+ in last 2 months

Refreshed FICO	Original DTI					Total	
	< 30	30 - < 40	40 - < 45	45 - < 50	50+		
< 660	7,256	2,810	2,007	2,038	2,094	16,205	88%
660 - 699	399	191	135	124	129	978	5%
700 - 719	98	46	32	32	23	231	1%
720 - 739	58	43	28	24	22	175	1%
740+	153	97	60	37	21	368	2%
Missing	320	78	46	44	45	533	3%
Total	8,284	3,265	2,308	2,299	2,334	18,490	100%



25% increase of traditionally good customers (high FICO (updated) & low DTI) July vs. August

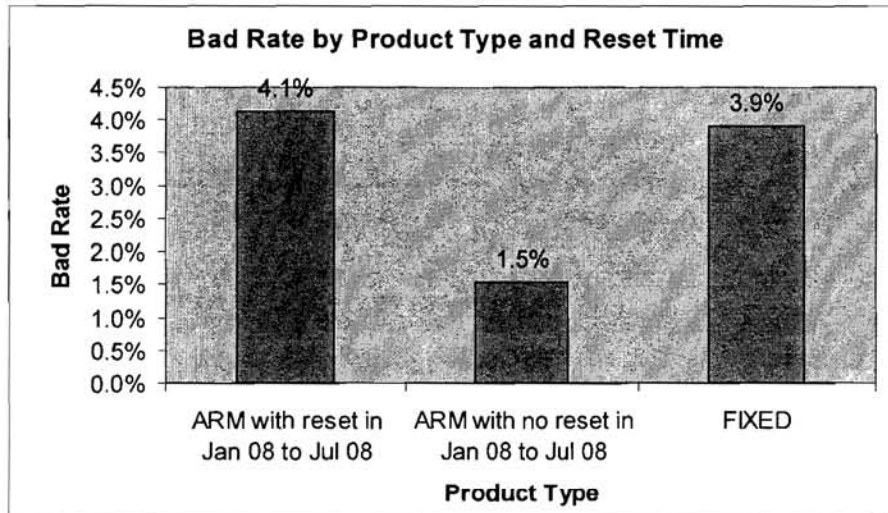


There were 440 new 30+dpd accounts in August had FICO 720+ and DTI < 40%; a 25% increase since July. June / July were relatively stable at approx 350. Of all new delq accounts in August with FICO >=720, 60% were in MSAs with double digit depreciation and 20% were in MSA with no depreciation. For the subset FICO >=720 and DTI < 30%, 50% were in MSAs with double digit depreciation and 25% in MSAs with no depreciation.

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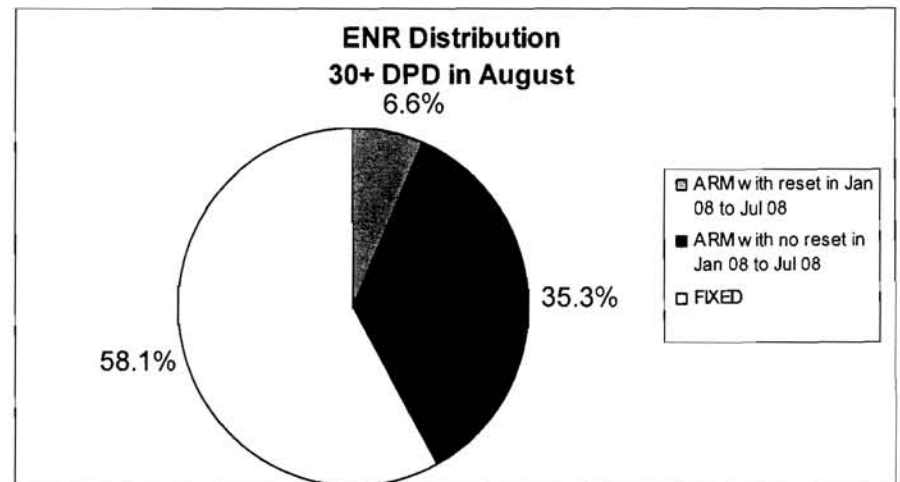
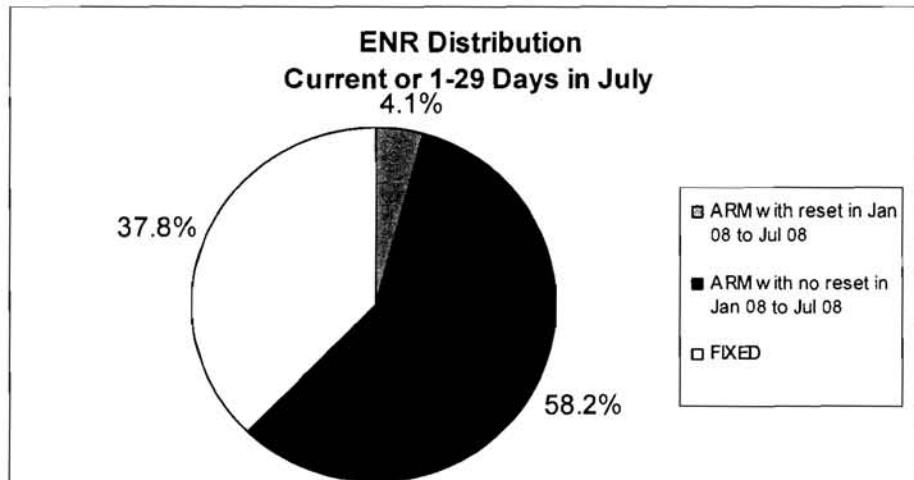
Impact of ARM Reset in August 08



Data Source

- July & August 08 Citilink Data (include converted MortgageServ data)
- Only Portfolio Conventional Risk managed by CMI and CTB are included

Bad Definition: 30+ DPD in August 08 (for accounts current or 1-29 days dpd in July)



- Accounts with recent ARM reset have bad rate close to 2 times higher than ARM accounts without a recent reset;
- ARM accounts with recent ARM Reset account for only 4.1% of the current or 1-29 days in July but 6.6% of the 30+ delinquency in Aug.

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RFD trends

	Jun-08	Jul-08	Aug-08	Sep-08
UNEXPENSES	14.35	16.42	17.95	18.50%
OVEREXTENDED	14.17	14.63	14.88	14.92%
REDUCED INC	9.42	9.74	9.51	9.49%
UNEMPLOYED	7.46	7.39	6.99	6.40%
SLOW RCVBLS	6.06	5.6	5.54	5.45%
SICK/MORT	5.84	5.74	5.68	5.23%
CASUALTY LOSS	0.05	0.09	0.07	5.00%
TEMP LAYOFF	3.74	3.43	3.6	3.79%
REFUSED	2.9	3.96	4.04	3.79%
DEFAULT	2.93			5.25%
SICK/FAMILY	4.03	4.03	3.88	3.70%
PAYROLL DELAY	2.59	2.58	2.25	2.69%
MARITAL DIFF	3.2	2.73	2.71	2.61%
PMT DISPUTE	2.39	2.47	2.49	2.52%
JOB TRANSF	2.39	2.09	2.03	1.93%
HOME REPAIRS	1.68	1.83	1.95	1.90%
DEATH/FAMILY	1.62	1.61	1.61	1.58%
REDCD TO PT EMP	1.64	1.64	1.7	1.55%
TENANT PROB	1.46	1.35	1.32	1.33%
NAT DISASTER	0.18	0.2	0.27	1.29%
PAY SCH CHANGE	1.2	1.05	0.97	1.10%
FORGOT TO MAIL	1.11	1.15	0.98	1.06%
HOME REPAIR	0.9	0.99	0.92	0.96%
CAN'T SELL	1.52	1.21	1.06	0.85%
OUT OF TOWN	0.73	0.8	0.78	0.82%
PMT ADJ	0.82	0.81	0.72	0.74%
SVCING PROB	0.45	0.31	0.55	0.57%
REFI/PAYOFF	0.7	0.58	0.55	0.52%
NO CONTACT	0.31	0.42	0.49	0.51%
SCHOOL EXPENSE	0.27	0.32	0.43	0.50%
EZ PAY ISSUE	0.4	0.41	0.34	0.36%
ENERGY COSTS	0.37	0.43	0.35	0.32%
BUS FAILURE	0.3	0.26	0.31	0.32%
DEATH/MORT	0.33	0.34	0.34	0.27%
PENDING SS INCOME	0.3	0.31	0.26	0.27%
TAX	0.38	0.3	0.29	0.27%
NO BILL STMT	0.21	0.21	0.21	0.24%
OTHER	0.05	0.82	0.45	0.24%
FRAUD	0.33	0.25	0.28	0.23%
NEW ACQUISITION	0.32	0.42	0.26	0.20%
ABANDON PROP	0.07	0.14	0.19	0.19%
PMT LOST	0.15	0.14	0.12	0.13%
ARM CHANGE	0.09	0.17	0.12	0.10%
PROB W/PROP	0.03	0.08	0.07	0.10%
MILITARY SVC	0.1	0.12	0.08	0.09%
PURSE STOLEN	0.07	0.07	0.08	0.08%
JAIL	0.08	0.07	0.09	0.07%
OWNER/TRANS	0.11	0.1	0.06	0.06%
CREDIT CARDS	0.07	0.07	0.04	0.05%
PROBATE	0.09	0.07	0.11	0.05%
HOLIDAY EXP	0.03	0.03	0.03	0.02%
DRUG SEIZURE	0.03	0.02	0.02	0.01%
Total Reasons	150,034	208,719	218,224	108,113
Employment Related	28.62	28.06	27.65	27.00%
Illness/Death	11.91	11.79	11.62	10.84%
Expense Related	30.94	33.73	35.63	36.22%